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ACROSS THE EDITOR'S DESK

Even a narrow-minded Budget Director must admit that some advances have been made in business operations outside the realm of budgeting, and I am pleased to verify that, apparently, most budget men are keeping pace with one such advancement---"better business letters". Judging from the tone of letters which cross our desk, modern business language is finally getting to look like ordinary, every-day English...quite a far cry from the "we beg to advise" era.

I'm sure we can give credit, mostly, to our schools and universities, who have been teaching (lately) that a letter is to be written in the same language we speak. And if you think that sounds like unnecessary teaching, remember that most business letters used to sound like this:

"We beg to advise you and wish to state
That yours has arrived of recent date.
We have it before us, the contents noted,
Herewith enclosed are the prices quoted.
Attached you will find, as per your request,
The samples you want and we would suggest
Regarding the matter, and due to the fact
That up to this moment you order we've lacked
We hope that you will not delay it unduly
And we beg to remain, yours very truly."

Author unknown, but you probably recognize the language.

Not long ago Richard D. Fay, of the Massachusetts Institute of Technology, got so sick of reading stilted gobbledygook that he decided to see how the Gettysburg Address would sound written that way. The result:

"Eight and seven-tenths decades ago the pioneer workers in this continental area implemented a new group based on an ideology of free boundaries and initial conditions of equality. We are now actively engaged in an over-all evaluation of conflicting factors in order to determine whether or not the life expectancy of this group or any group operating under the stated conditions is significant.

"We are met in an area of maximum activity among the conflicting factors, to assign permanent positions to the units which have been annihilated in the process of attaining a steady state. This procedure represents standard practice at the administrative level. From a more comprehensive viewpoint we cannot assign--we cannot integrate--we cannot implement this area.

"The courageous units, of being and annihilated, who were active in this area have integrated it to the point where the application of simple arithmetical operations to include our efforts would produce only negligible effects...It is preferable for this group to be integrated with the incompleted implementation...that we here resolve at a high ethical level that the deceased shall not have been annihilated without furthering the project".

--Well, you get the idea. Only Lincoln said it so much better!

(We are indebted to Ollie James, columnist for the Cincinnati Enquirer, for the above.---Ed.).

Two men, neither very bright, were helping to build a house. One kept picking up nails, looking at them, keeping some, and throwing others away.

"Why are you throwing away so many nails," asked his companion. "Because they have the head on the wrong end," the other replied.

"You fool, those are for the other side of the house."

FORECASTING FOR PLANNED PROFIT AND CONTROL

By: C. E. Manteuffel
Budget Director and Statistician, Jefferson Island Salt Company, Louisville, Kentucky

Can a reasonably accurate sales forecast be made for OUR business? This is the question asked of every Budget Director . . . and the answer CAN be "Yes"! Here's how one company has attained 95% accuracy in forecasting a complicated sales program -- and gained all the advantages of planned profit and control in the bargain.

The value of the highly interesting subject of forecasting sales is gradually coming into its own as a basic foundation for sound management guidance. More companies are properly placing emphasis on the need to estimate what will happen and less or what has happened. A historical cataloging of past performance is of value only to the extent we profit from the experiences and use them as an aid to mold the future.

Which came first, the chicken or the egg, has often been debated; and likewise, which comes first, the product or the sale? I do not mean to underestimate research and the development of new products, but to me, there must first be a need or demand for the product. I will grant that sometimes the need or demand is created by good business practices. Knowing the need or demand creates the wide horizon of sales potential and this brings us to sales forecasting.

Frequently, when a program of forecasting sales is brought to the attention of top management, they are prone to reject it because they do not recognize what it could do for them. The excuses are as many as they are varied. Just a few are, "No business is like ours". "How can we know what we are going to do when nobody else does", "Why guess what we are going to sell, we just sell all we can", and "We are going to spend so much for capital investment and that's it, regardless".

None of these excuses are really valid. There is no business or industry which cannot, with a little application of true diligence, forecast its sales with a reasonable degree of accuracy, barring only a major economic dislocation. I can state that, since the inception of the plan set forth in this article, our company, a producer of salt, has enjoyed a 95 percent accuracy in its sale forecasts. This is more impressive when it is realized that we have approximately 200 different items, each of which may have one or more uses, and each use or package having a different season in different geographical area. Here you begin to see the value of the need or demand.

BUILDING UP THE FORECAST

As a bit of background, our sales territory is divided into regions, each comprised of a group of states and supervised by a regional manager. A region is divided into divisions (generally, one state) supervised by a division manager. Each division, in turn, is subdivided into two or more salesmen's territories. This last division is dependent on sales potential or marketing areas. The sales controlled by this field organization are identified as sales force sales. Large contract, export and industrial sales are handled direct by the Main Office, and the sales force is not involved.

The Budget Director and the Vice President in charge of Sales are jointly responsible for the timely preparation and completion of the sales forecast. For forecasting purposes, all sales are classified into four major categories:

1. Region and/or Division sales (sales force sales)
2. Contract sales
3. Export Sales.
4. Sundry sales.

In general, the annual sales forecast can best be described as a synthesis of:

1. Territory salesman's forecast for his territory
2. Division Manager's forecast for his division.
3. Region Manager's forecast for his region
4. Sales management's forecast for the company
5. Budget director's forecast for the company, based on two statistical methods:
   a. Long-term trend method
   b. Current experience, adjusted on five-year data to annual basis.
6. Executive or top management's economic forecast.

One might say our final forecast is the composite of the sales force aims (and sometimes wishful thinking), the goals of sales management, all tempered by the theoretical approach of the Budget Director and business judgement of top management.

THE FIRST STEP

By 15 October, the Budget director prepares a one-year summary of sales, by grade and container, of all significant items sold in each territory and division. The year used includes the last quarter of the preceding calendar year, and the first three quarters of the current year. The term, significant items, applies to those items which are important in the sales of a particular territory or division. We limit the salesman's forecast to the significant items for two reasons. It can readily be seen that, if a salesman if requested to forecast sales of an item not generally sold in his territory, he may make some wild guess to impress the home office. Also, if that salesman has to estimate the entire range of products, he will throw up his hands and ask "What do they want me to do? Sell, or spend my time doing paper work"?, and justly so.

We have followed the rule-of-thumb method that, if an item sold by a salesman represented less than 2 percent of his total volume, it was not a significant item. An exception to this is that we ask every salesman to forecast his sales of items peculiar to our company. Call them specialties or leaders, they are items which the company, either for advertising or other reasons, want to sell as widely as possible. What is significant in a territory may not be significant in a division, due to the larger base. For our forecasting procedure, we always work on the theory that, although the region manager has a broad scope of his region and knows the larger accounts, the territory salesman is closer to all customers than anyone above him. He knows local conditions and is able to talk to the buyers who are familar with conditions in the community.

The one-year summary of significant items which the budget director prepares for each salesman is in terms of tonnage sold and the salesman supplies his forecast of tonnage, as in the table which follows. From this table, two other features will be noted. The first is that a five-year classified tonnage summary is appended for the salesman's guidance. The second is that a section for "additional items" is included. Each man is familiar with our entire line, and he may feel that he will develop sales of items which have not been significant in his

territory in the past year. The form supplied each salesman is, in its general features, as follows:

1955 FORECAST OF SALES

TERRITORY/DIVISION XX

John Smith

	Tons Sold Year 10/1/53–9/30/54	Your Estimate Year 1955
Rock A -		
100 lb Multi-wall bags	100	(150)
50 lb Multi-wall bags	150	(200)
Rock C -		
100 lb Cotton bags	200	(175)
Rock Table -		
36/1½ lb squares	50	(65)
Total Rock Sales	700	(800)
(A specialty item)	10	(20)
Total Evaporated Sales	300	(400)
Total Significant Items	1000	(1200)
Miscellaneous Items	100	(100)
Total Tons Sold	1200	(1300)
Additional Items (salesman to detail		(Included above)

PAST FIVE YEAR SUMMARY

	ROCK	EVAP.	TOTAL
1950	-	-	-
1951	-	-	-
1952	-	-	-
1953	650	325	975
1954 (Budget Director's extension based on 9 mos. actual)	750	450	1200

(NOTE: Figures in parenthesis are those inserted by salesman)

Each division manager, using similar data furnished him for his division, prepares an independent estimate of expected sales for his division for the coming calendar year. Note that this is one time we ask our territory salesmen, division managers and regional managers to act independently of each other. In forecasting, we do not want an individual to be influenced by another's thinking.

The foregoing information is furnished to the field about November 1st, and all estimates are returned directly to the Budget Director by November 15. The Budget Director reconciles, or (for lack of better word) blends each Division Manager's forecast with the total of his Territory Salesmen's forecast. An example will serve best as an explanation, with attention directed to the "total" and "composite" columns:

	Div. Mgr. Forecast	Terr. 1 Forecast	Terr. 2 Forecast	Total Terr. Forecast	Composite
Rock A - 100 lbs. MW	500	150	300	450	475
50 lbs. MW		200		200	200
Rock C - 100 lbs. Cot.	200	175	250	425	313
Rock Table - 36/1½ sq.		65		65	65
Totals	3000	1300	1500	2800	2900

It will be noted in the example Rock A, 50 lbs. MW and Rock Table 36/1½ lbs. squares, were not significant items to the Division Manager or Territory 2. In this case, the salesman's forecast for Territory 1 was used as the composite figure for the division. In the case of Rock A, 100 lbs. MW, the division manager forecast 500 tons, whereas the sum of his territory salesman's forecast was only 450 tons. Either the division manager was over-optimistic or the territory men were over-pessimistic. We have found that just a straight arithmetical average of the two figures for the composite proves fairly accurate, each tempering the other. Experience has also shown us that some men are of the over-cautious type, while others will soar to nebulous heights. Knowing the salesmen helps the Budget Director to evaluate the respective forecasts accordingly. (At this point, it should be noted that, the Budget Director is truly a combination of accountant, personnel man, economist; theorist and practical.)

Later, partly as a procedure to obtain better forecasts, we advise each man of the final forecast for his territory or division and notify him monthly of results against forecast, as well as his forecast for the subsequent month. A man who is constantly behind forecast will tend to lower his sights on his next forecast, while the man who is constantly ahead will tend to do the opposite. Building a competitive spirit between the individual salesman and the Budget Director is a good practice. Such things as a dinner bet between a salesman and Budget Director has paid dividends for our company. The salesman likes to feel he has beat the guy with the pencil and trys to keep on doing so. This is aside from practicality but it seems to produce more sales for the company, which is the ultimate aim.

Contributions to the forecasting process do not stop with divisional sales management. To top sales management consisting of Vice-President in charge of sales, the sales office supervisor, and their assistants, the Budget Director furnishes a five-year summary for each division, showing total tons sold of the two principal types of salt. In return, he receives a forecast for each division, again by November 15. It should be noted that top sales management deals only in salt-type totals, not individual items, and breaks down its figures for the divisions only.

The budget director takes the forecast of a division as made by the sales management group and averages this total with the composite resulting from the forecasts of the respective Division Manager and his territory salesmen. Assuming that the sales management group expects 3,200 tons from the division, for which figures have already been shown, the procedure would be to average this expectation with the 2,900 composite, arrived at before, resulting in a sales department forecast of 3,050 tons. This figure will be used by sales management as a yardstick, as it is strictly developed by the sales department, although according to budget procedure this forecast may or may not be made by top management.

THE BUDGET DIRECTOR'S STATISTICAL FORECAST

The Budget Director prepares two statistical forecasts of sales by tons for each division. The first forecast is made by using the third quarter of the current year, seasonally adjusted on a five-year history. (This is sometimes referred to as the "1% method".) For this purpose, records are kept of each division's sales, by months, of total tons of each grade of salt sold. A typical sale of a grade for a year might reflect as follows: (emphasizing the third quarter in the example):

MONTH	TONS	PERCENTAGE
January	10	5.0
February	15	7.5
March	5	2.5
April	10	5.0
May	10	5.0
June	15	7.5
July	25	12.5
August	35	17.5
September	40	20.0
October	15	7.5
November	10	5.0
December	10	5.0
Total	200	100.0

From the foregoing, it can be seen that the third quarter sales of this particular division amounted to 100 tons out of the total year's sales of 200 tons, or 50 per cent. This would be a highly seasonal sales characteristic. It could just as readily be in any other three-month period, depending on the particular grade and geographic location. Let us assume that the five-year record results in the seasonal indication and that during the current third quarter this division sold 150 tons. If this is 50 percent of annual sales, it results in 300 tons, which we put down as our expectancy for the following year's sales of this grade.

This is done for each grade in each division and the total for each division is the forecast for the following year.

The second forecast prepared by the Budget Director is the straight-line trend corrected for seasonal variation, using the previous six years as a base. This is also called the method of least squares, or root-mean-square line of best fit. It is prepared for each grade in each division, using the same basic information which was described with the foregoing method.

The budget Director then prepares his final statistical forecast by projecting the mean of the two statistical forecasts prepared by him. Generally, the two forecasts will be relatively close. This final statistical forecast is then averaged, in total tons for each division, with the final composite of the sales department. Assume that the statistical mean total for the division referred to before is 3,100 tons. The final sales department composite was 3,050 tons. Averaging gives a final forecast of 3,075 tons.

The Budget Director then revises the various division forecasts and, in turn, their respective territory figures to reconcile them with the final forecast.

EXECUTIVE or TOP MANAGEMENT'S ECONOMIC FORECAST

It is the responsibility of top management, consisting of the officers of the company, to prepare, either individually or collectively, a general forecast of business conditions, giving an interpretation of its net effect on company sales during the coming year. Consideration is also given to the introduction of a new product, change of package design, change of company policy, adjustment of prices, or a major advertising program to be undertaken in the following year. This group determines to what extent the particular findings will affect company sales, e.g. business will be off 5 percent, remain steady, or possibly increase 10 percent. The Budget Director is advised of top management's decision and he may be instructed to adjust the combined forecast accordingly. This adjustment may be made on a general basis or on particular divisions, depending on their geographical location. Suppose, for example, a state or marketing area is to be influenced by the increase of new industry using our product. It would seem that we should expect our share of the business and there could be other factors in connection with this business not known by the division or territory salesman.

OBTAINING THE SALES DOLLARS

The Budget Director takes the final forecast of tons of product to be sold by each division and assigns them to each month of the year, based on each respective division's seasonal-to-total sales ratio for the previous three years, regardless of the various grades. The individual seasonal characteristics of the various grades are taken care of in the part they play in determining the monthly seasonal variation in total sales.

The next step is to determine the sales value of these monthly sales. The forecast for each month's tonnage sales for each division is extended at the average price per ton received for the respective months during the current year. In the event principal price changes are known or anticipated, adjustment is made accordingly. A summary is then prepared, reflecting total tons to be sold during the various months of the coming year, and the resulting sales dollars.

MONTHLY MEETING TO CHECK RESULTS, SUPPORTED BY REPORTS AND CHARTS

Each month, the Budget Director prepares a comparative statement, in both tons and dollars and by divisions, showing current month and year-to-date actual results compared with the forecasts. Also shown is the percentage by which the various divisions exceeded or failed to make their respective forecasts, monthly and year to date. These results are likewise plotted on three charts, and are reviewed by the Budget Director at a monthly "statistical" meeting, for management and various interested department heads. The charts more readily depict results than the necessary reports with a lot of figures. This is especially true of the cumulative charts. The comparative report takes the following form. (Of course, all figures and charts presented in this report are illustrative only and are in no way related to actual results):

COMPARATIVE TONS

	MONTH OF MARCH			YEAR TO DATE (3 MONTHS)		
	Forecast	Actual	Over (Under) Forecast	Forecast	Actual	Over (Under) Forecast
Div. A	1,000	1,100	10%	2,000	1,800	(10%)
Div. B	400	300	(25%)	1,600	1,280	(20%)
Div. C	200	250	25%	600	900	50%
Div. D	500	250	(50%)	1,400	840	(40%)

COMPARATIVE SALES DOLLARS

	MONTH OF MARCH			YEAR TO DATE (3 MONTHS)		
	Forecast	Actual	Over (Under) Forecast	Forecast	Actual	Over (Under) Forecast
Div. A	1,000	600	(40%)	1,600	1,360	(15%)
Div. B	700	455	(35%)	2,200	1,980	(10%)
Div. C	500	600	20%	1,400	1,960	40%
Div. D	700	350	(50%)	2,000	1,200	(40%)

From the foregoing, it is apparent that Division A exceeded the current month's tonnage forecast by 10 percent, but is still 10 percent behind for the three months, due to bad months earlier in the year. Division B fell short in the current month by 25 percent and is 20 per-

cent behind for the year to date. Division C exceeded the forecast for the current month by 25% and is 50 percent ahead for the year to date. I have purposely made these examples very pointed. Normally, sales management knows the reason for any great deviation from the forecasts. The charts used emphasize facts like these which, in the case of divisions lagging behind, demand attention by the management.

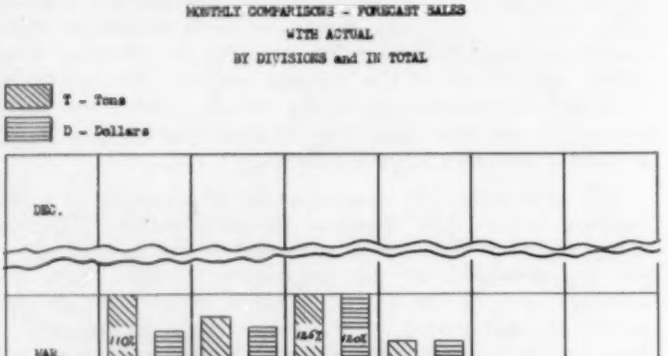


EXHIBIT 1

Exhibit 1 shows a chart with two plottings for each division, one for tons (T) and one for sales dollars (D). These two plottings may or may not keep pace with each other. Note that while Division A exceeded its forecast tonnagewise, it failed to make its goal in sales dollars. This probably means the division is selling lower-priced package items, or possibly the character of sales in the division may be changing because of local conditions, thus lowering the average price per ton received. In any event, the chart spotlights the change and provides a signal for sales management.

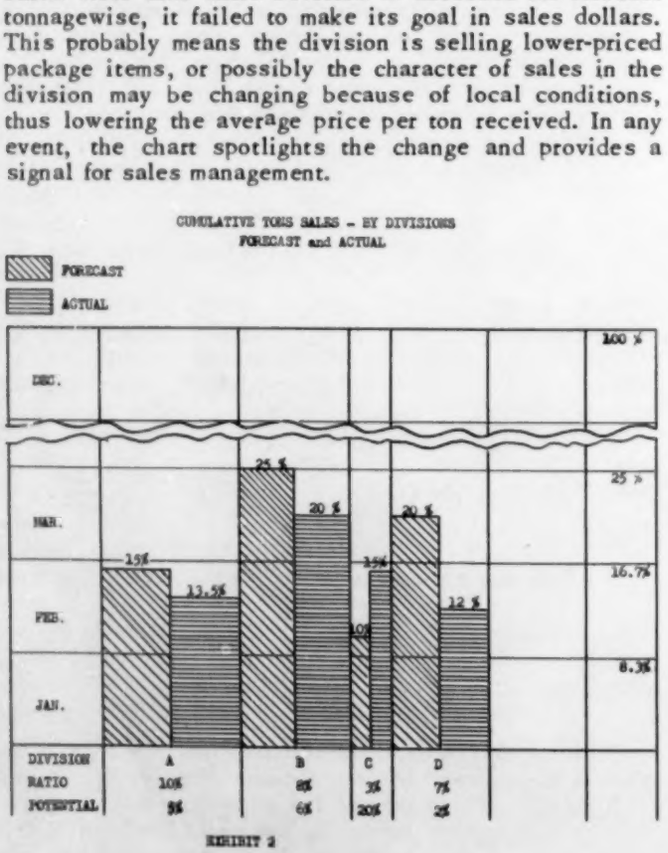


EXHIBIT 2

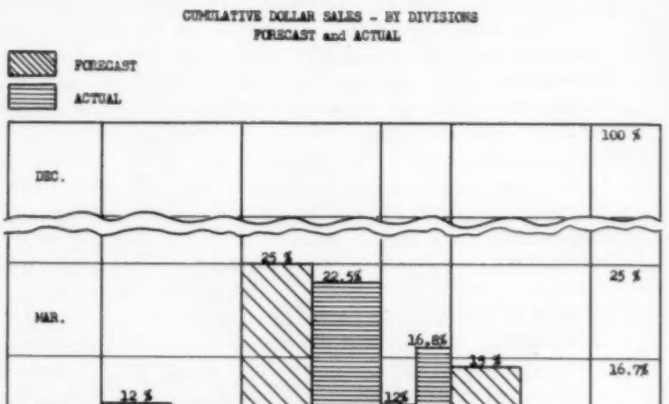


EXHIBIT 3

Exhibits 2 and 3 are very important as they depict the results of the various divisions cumulatively for the year-to-date. Sales can vary from the normal pattern from month to month, even to the extent of developing an entirely new seasonal pattern, but the showing through the year on this cumulative chart will offset these monthly variations. Briefly, the plotting is determined for these two charts as follows:

If Division A should realize 15 percent of its annual tonnage in three months and its actual sales divided by its annual forecast are 13.5 percent the division is behind its cumulative forecast by 1.5 points. Likewise, if it should have attained 12 percent of its sales dollars an the sales divided by its annual forecast came out to 10.2 percent (exhibit 3), the division is behind its cumulative forecast 1.8 points. Glancing across the two exhibits, we find Division C 5 points ahead of its tonnage forecast and 4.8 points ahead of its sales dollar forecast, while Division D is 8 points behind on its tonnage and 6 points behind in its sales dollars. Note that the width of the bars plotted on Exhibits 2 and 3 vary. They are plotted in the ratio they normally bear to total sales and that ratio is shown below each division. As shown, Division A normally produces 10 percent of total tonnage sales and 10 percent of total sales dollars; while Division C, which is well ahead of both its forecasts, only produces 3 percent of total tonnage sales and 5 percent of total sales dollars. These ratios are even more salient when they are related to normal expectancy of the potential in the respective market. If the bars had been plotted in equal widths, one could have been lulled into thinking that things were not good but still not too bad. Divisions A and B both are slightly behind and C is nicely ahead, while might off-set D's position. However, when one realizes that division C represents only 3 percent of the Company's sales and is enjoying 20% of the market, while Division D represents 7 percent of the Company's sales and (even more) 10 percent of the sales dollars on only 2 percent of the potential market, the picture takes on a more striking aspect. Sales management's attention has been focused on weak points in time to take corrective steps, while they still mean something, or at least conduct an investigation into why such an adverse picture is presented.

(Cont'd on Page 18)

PROFITS ARE WORTH PLANNING FOR

By: Charles P. Reynolds
Controller, Trailmobile Incorporated, Cincinnati, Ohio

There is more than one way to a profit goal, and more than one budget may be necessary to achieve the goal. A sensible approach to budgeting for profits, and a clever presentation to the men who help achieve the goal, highlight the budget program of the second largest producers of truck-trailers in the world -- Trailmobile, Inc.

All too often, the subject of budgeting is confined - even among budget men themselves - to the narrow concept of expense control. Unless cash needs prescribe a stringent regulation of out-of-pocket expense, there would seem to be little purpose in controlling expenses purely for the sake of control. To those who confine their budgeting purely to expenses the answer would be simple, "We control our expenses to stay within our income". In doing this, what is their objective? "To make a profit". As a matter of fact, in this simple phrase we have all of the elements of full scale profit planning - income, costs, expenses, and profit. By far the most important of these elements, and the objective of the planning effort, is profit, and the term "profit planning" is a more apt description of the entire budgeting function.

If profits are important, they are certainly worth planning for. Maybe it would help justify all the efforts of a Budget Director or a Budget Department if we stopped to consider for a moment why profits are important. In the first place, profits are important because they serve to protect and insure the future of the business. In our present dynamic economy, the company which doesn't grow or move forward ultimately loses position and withers on the vine. There is no such thing as standing still. In order to grow, a company needs capital. This capital may be obtained either from retained profits or from investors who expect a return on their investment in the form of profits. Profitable operations are also necessary in good times to build up the strength of the company to weather depression cycles. Finally, the psychological urge to be successful and the prestige of operating a successful enterprise are basic to our business system. Profits are a measure of success. Through his contribution to profit planning, a budget man can contribute materially to the profitable operation of his company.

THE TRAILMOBILE PROFIT PLAN

A "Profit Plan" appears to be an individual problem rather than a universal application of a set pattern. Therefore, to reap a full understanding of "why" and "how" our company, Trailmobile, Inc. operates under a profit plan, a bit of background information concerning our operations appears necessary.

Trailmobile is the second largest producer of truck-Trailers. Our product is produced in plants located at Cincinnati, Ohio; Springfield, Mo.; Berkeley, California; and Toronto, Canada. We have just recently established a new plant at Longview, Texas to serve the growing Southwest area.

In our distribution set-up we do include a small number of Distributors, however, in the main, Trailmobile trailers are sold through our own salesmen operating out of our own branches. Nearly all of our branch locations contain shop space with complete service facilities.

Another important point to remember in appraising our profit plan is in regard to our production plan and production cycle. Trailmobile does not produce trailers for stock. Trailmobile trailers are produced to individual customer design and specification, on an average delivery schedule of five weeks from date of order.

We have in a sense, three separate sections or major departments in our company.

1. The Sales Department – is charged with the responsibility of providing the Manufacturing Department with sufficient trailer orders to allow for efficient operations, and is also responsible for branch operations.
2. The Manufacturing Department – is charged with the responsibility of producing trailers at the lowest possible cost according to the orders provided them by the Sales Department.
3. The General and Administrative Department – is the in-between group for both the Sales and Manufacturing Departments, and exercises the normal control functions of a company.

I think this background information will help you understand Trailmobile's Profit Plan.

MORE THAN ONE BUDGET

When I first started into the Budgeting field I read articles, books, pamphlets, and remembering some of my text book theory from college thought that the only way a budget could be operated successfully was to start with the lowest or smallest division, department, or section of your business and develop your budget with each piece tying into one large package called an "integrated budget." In this manner every department, and every individual was working toward one goal, and all were being measured by the same yardstick. I have since found out, however, that this is not necessarily the only way to a profit goal. It is very possible to have one segment of your company - for instance the Sales Department - working against an entirely different, and I might add higher goal, than the one established for Manufacturing and Administrative control.

I wasn't too sold on this theory in 1954, but I can well see the wisdom of the method after viewing the 1955 results to date. If in December, 1954 we had established sales quotas and profit quotas for our branches tying into our over-all expectations for 1955, almost without exception, every branch would be exceeding their objective, with branch personnel pushing their maximum compensations for the year, with the effect that the incentive to close out the year with a solid sales effort would be lacking.

Instead of a full tie-in, our Branch Sales Quotas are keyed to a level several million dollars higher than what we actually expect our sales volume to be for the year. In this manner, despite the fact that business this year was better than anticipated, the sales quotas still provide for an incentive for most of the branches to continue the good selling job they have done so far. This is one way in which you can profitably deviate from the integrated budget.

Our Manufacturing Plants operate on an entirely different budget. Their budget is subject to monthly changes and is not established for more than one month in advance. We feel that this budget is a control budget only, and does not affect our over-all profit plan, as the plants

can only build those trailers for which they have orders. We do, of course, have longer range planning meetings covering six month periods, so that the plants will have some idea of what is expected of them in the coming months, and to enable them to plan manpower and material requirements.

The budget for the General and Administrative Departments is an expense control budget at the present time, although we hope to broaden it out to cover all operations of this department under our "three-way profit split", which will be explained later in this article.

branches and the plants on their actual results versus their objectives, but top management gets only the comparisons to the profit plan.

Since the readers of this publication for the most part are people with a good background in Budgeting, I will not discuss the mechanics of how the middle ground between the sales objective and the profit objective is filled in. I believe that you can visualize how, providing the objectives are established realistically, the individual segments of the company can be budgeted to fit the pattern desired with only a minimum of adjustment. By the

ANNOUNCING !!!
THE 1955 BUDGET PERFORMANCE RACE
"600" MILE SPEEDWAY
EACH CAR WILL REPRESENT A BRANCH IN THE FIRST 10. CARS TRAVEL 50 MILES A MONTH.
50 MI.
Here is the announcement of the "600-Mile Speedway Race" which each manager of Trailmobile's 51 branches received at the beginning of the budget year. Equally clever monthly announcements are sent out reporting the standings. A checkered flag is held by the branch in first place that month, which must go to the branch in first place when there is a change in the standings. Positions are determined by the performance of the branches in three areas: 1) Percent of sales to quota; 2) Actual expenses in relation to budget; 3) Actual percent of branch profit to branch profit percentage quota.
WHO WILL BE THE "ACE" DRIVER ?

THREE BUDGETS, ONE PROFIT PLAN

As you can understand from the preceding text, Trailmobile's Profit Plan is not the one established for the Sales Department, nor is it the one established for the Manufacturing Departments, but is an over-all company budget which is described as our "Profit Plan." Generally speaking, this Forecast is prepared in September, and modified in December, as a set of operating and profit objectives for the coming year.

The sales level and the net profit objectives are established by the top echelon of our company, and the budget department filling in the middle with realistic targets for all segments of the company so as to chart the way toward obtaining the desired profit result. This really is not too difficult due to the fact that the sales and profit objectives are set very carefully in our company. All subsequent reports on budget performance to our Officers are made in comparison to this profit plan. This plan is considered the guide for top management decisions, while the others serve the specific needs of certain operations. We do, of course, issue budget performance reports to the

same token, I do not expect to have everyone of you agree that this is the proper way to go about establishing a profit plan, but, nevertheless, it serves as an excellent guide toward our profit goal.

Most budget people I know, and probably many I don't know, confess to a difficulty in getting other company people to take a keen interest in a budget. We know that with many of our field personnel particularly, we have an educational job to demonstrate what a budget can do for their operations. Along with the usual selling type of approach at meetings, we have established a "Budget Performance Speedway Race" to enliven interest in our branch budget program.

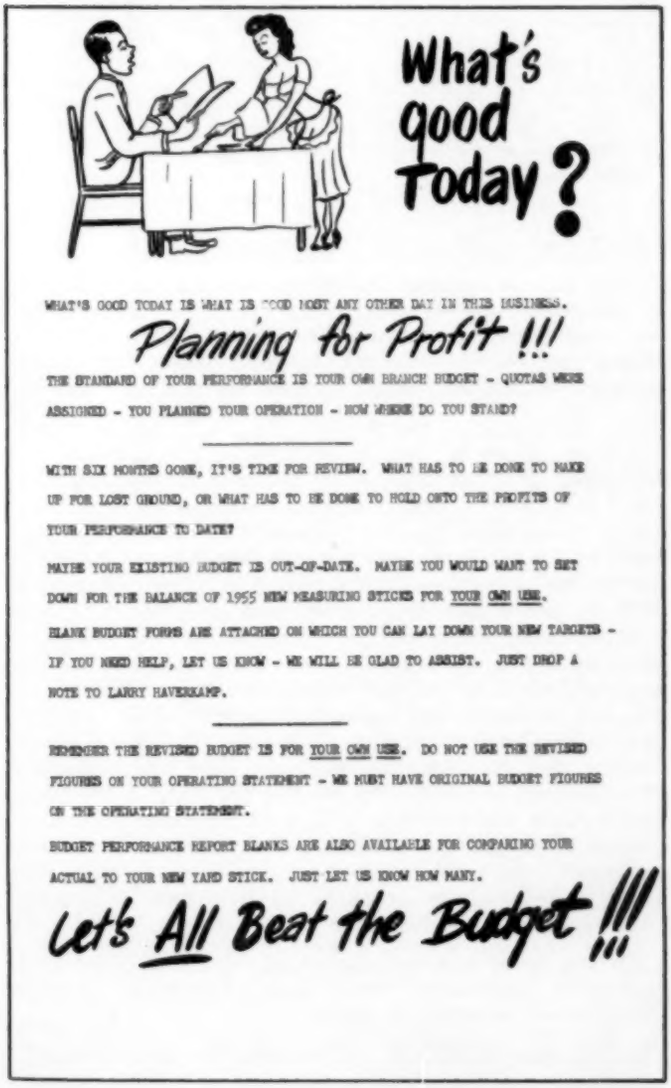
A REAL BUDGET RACE!

We are operating a 600 Mile Speedway race with each of 51 branches being an entry. Each month the cars representing the branches travel 50 miles around the track to the finish line. Each month the first ten cars are announced with a special announcement sent to all branches along with a complete listing of the branch standings. A checkered flag is maintained at the branch holding down

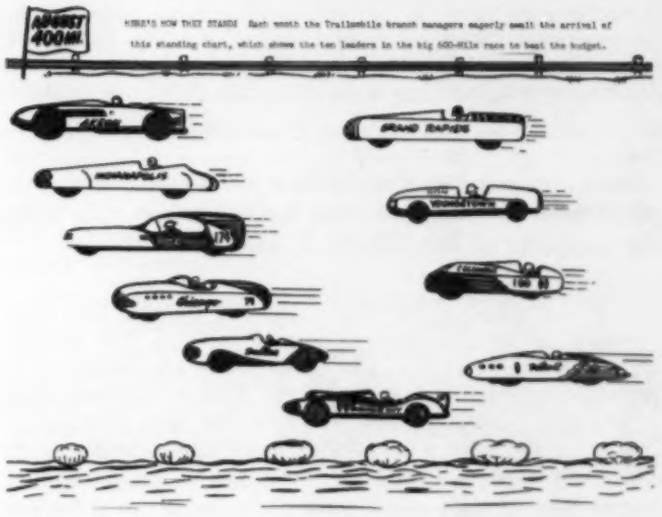
first position and is forwarded to a new branch whenever there is a change in the leader.

The method of rating the branches is as follows:

1. Each branch was assigned a sales and net profit percentage quota at the beginning of the year, and their budget for the year is tied into these quotas. The Sales quota is the basis of the first item of the rating. One point is charged or credited to the Branch for each percent they are under or over their sales quota. (For example: If actual sales are 95% of quota the branch is charged 5 points; if actual sales are 110% of quota they receive a credit of 10 points).
2. One point is charged for each percent the branch is over or under their budgeted expense allowance taking into account the over or under sales quota percentage. (For example: A branch which is operating at 95% of sales quota, and actual expenses 105% of budgeted expenses is charged with 10 points. If this same branch had controlled expenses to 93% of amount budgeted they would be credited with 2 points.)


What's good Today?
WHAT'S GOOD TODAY IS WHAT IS GOOD MOST ANY OTHER DAY IN THIS BUSINESS.
Planning for Profit !!!
THE STANDARD OF YOUR PERFORMANCE IS YOUR OWN BRANCH BUDGET - QUOTAS WERE ASSIGNED - YOU PLANNED YOUR OPERATION - NOW WHERE DO YOU STAND?
WITH SIX MONTHS GONE, IT'S TIME FOR REVIEW. WHAT HAS TO BE DONE TO MAKE UP FOR LOST GROUND, OR WHAT HAS TO BE DONE TO HOLD ONTO THE PROFITS OF YOUR PERFORMANCE TO DATE?
MAYBE YOUR EXISTING BUDGET IS OUT-OF-DATE. MAYBE YOU WOULD WANT TO SET DOWN FOR THE BALANCE OF 1955 NEW MEASURING STICKS FOR YOUR OWN USE.
BLANK BUDGET FORMS ARE ATTACHED ON WHICH YOU CAN LAY DOWN YOUR NEW TARGETS - IF YOU NEED HELP, LET US KNOW - WE WILL BE GLAD TO ASSIST. JUST DROP A NOTE TO LARRY HAVERKAMP.
REMEMBER THE REVISED BUDGET IS FOR YOUR OWN USE. DO NOT USE THE REVISED FIGURES ON YOUR OPERATING STATEMENT - WE MUST HAVE ORIGINAL BUDGET FIGURES ON THE OPERATING STATEMENT.
BUDGET PERFORMANCE REPORT BLANKS ARE ALSO AVAILABLE FOR COMPARING YOUR ACTUAL TO YOUR NEW YARD STICK. JUST LET US KNOW HOW MANY.
Let's All Beat the Budget !!!

Clever interim mailings are made to Trailmobile branch managers, to keep their interest high. Note that there is a suggestion regarding revised budgets — and an offer of help. Whatever else they may be, one thing is certain ... Trailmobile branch managers are definitely "budget conscious", and the budget department helps them stay that way!


AGAINST 400 MI.
HERE'S HOW THEY STAND! Each month the Trailmobile branch managers eagerly await the arrival of this standing chart, which shows the ten leaders in the big 500-Mile race to beat the budget.

3. A branch is charged or credited with three points for each one-tenth of percent their actual net profit percent is under or over their quota. (For example: A branch is assigned a quota of 7.5% net operating profit, and their actual is 6.2%; they are charged with 39 points.)

Just as in Golf - Low point branch is the leader.

Personally, I think it helps to add a little color to budget reports, and I think an approach such as this takes budget reporting out of the stereotyped class, and adds to the interest in budgets among people who may be hard to convince.

A typical follow-up on our branch budget program in addition to the speedway bulletins takes the shape of something like the "What's Good Today" mailing piece which was sent to all branch personnel on July 1st.

THREE-WAY PROFIT SPLIT

As a device for heightening the interest in profits at Trailmobile, we have developed what we call our "Three-way Profit Split". Our system is a means for measuring the profit contribution of our three major corporate functions, that of manufacturer - wholesaler - retailer. Trailmobile manufactures in five plants, distributes or "wholesales" the output of these plants to a national organization of company owned branches, and through this field organization retails these products to the ultimate customer. At each level of company organization a sale is made to the next succeeding level and a profit is earned, the amount of such profit depending on the volume of business and the efficiency with which it is handled.

PLANTS. The selling price of each of our plants to the wholesaler, or Home Office, is established at an arbitrary markup over standard costs. Since standard cost is used as a base, all variances in the manufacturing operation are a reduction of their maximum gross profit. Through this method the emphasis is placed in manufacturing to hew as close to the cost standards as possible.

At the same time, each manufacturing plant is protected from the vagaries of both price and volume. It matters little to a plant whether they are producing a high margin item or a low margin item, since their standard costs are engineered in terms of design, material specifications, man hours, and standard burden rates.

WHOLESALERS. The wholesaler, or the home office, includes the General Selling, Engineering, and Administra-

(Cont'd on Page 22)

THE BUDGETED HOUR

By: E. A. Vatter

Chief, Cost Accounting; International Harvester Co., Louisville, Kentucky

Many things other than Dollars can be budgeted; and for the company that finds it cannot satisfactorily work out a budgeted-dollar program, this may be the answer. By budgeting man hours, International Harvester has found that labor costs are controlled as favorably as by any other method.

For the many years that budgetary control has been covered in writing, speech and system, it has for the most part been referred to in terms of dollars and cents of probable revenue and expenditure. Webster defines it as a financial statement and so forth, but also states, "A bag or sack with its contents". So here, then, is the "Nod" to think of budgets in terms other than monies.

The development of an hourly budget is not a far cry from the dollar type. There are many business enterprises that have found it difficult to apply the dollar type budget due to a prohibitive number of cost variations to their product brought about by marketing a single item in different quantities, finishes, markings, etc. The Hourly Budget may provide a means of budgetary control for these businesses. The basic thought behind the hourly budget is that controlled man hours results in controlled labor dollars. A budget of one hundred hours in a cost center having an average hourly earning of two dollars per hour is, in effect, controlling the labor expenditure to two hundred dollars. This concept applied to an entire business divided into cost centers for accounting purpose, can result in budget planning for profits.

One of the first questions usually brought out in the discussion of a budget system is, "How many people do you employ to prepare this budget and the periodic statements required to keep management informed". This factor is very much in favor of the hourly type budget. The preparation of a weekly budget report for a manufacturing concern employing about 4,000 persons has been efficiently handled in a total of 16 to 24 hours. By placing two or three persons on the job, it can be completed in one day. This fact is outstanding and is above comparison to the usual two or more full time employes requiring the better part of a week to prepare the general dollar budget.

The International Harvester Company, Louisville Works, explored the use of an hourly budget in lieu of the dollar and cent budget, which has been in use for many years. Its findings were favorable, and a decision was reached to develop a plain but efficient format and to operate under this new budget system for a period of one year. It must be said at this point, that Harvester's long experience in budgetary control aided considerably in the planning, preparation and acceptance of the change over from dollars to labor hours. After one full year of operation under hourly budgets, an analysis of the results indicate that direct and indirect labor expenditures were controlled as favorably as when the dollar and cent budget was in effect. This bears out our earlier statement that controlled man hours is the plow that clears the way for controlled dollars and cents, which results in planning for profits.

A detailed explanation of the hourly budget which follows, covers five exhibits in the order that they are listed below.

Exhibit #1 ... Departmental Prime Labor
Exhibit #2 ... Quarterly Departmental Budget
Exhibit #3 ... Analysis of Labor Hours Worked
Exhibit #4 ... Analysis of Daywork Department Manhours
Exhibit #5 ... Analysis of Indirect Material

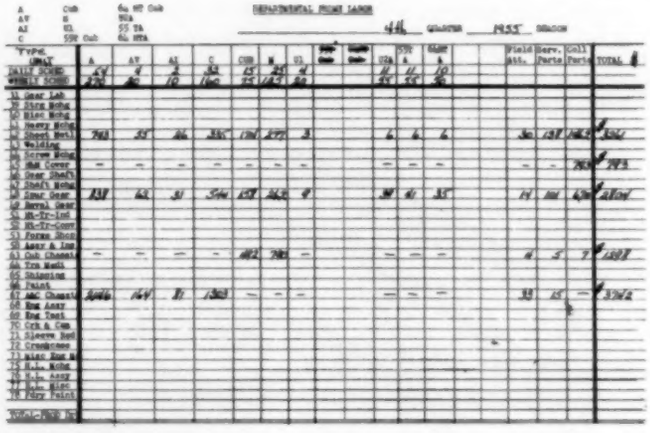


EXHIBIT - I

EXHIBIT #1– DEPARTMENTAL PRIME LABOR

This form is designed to accumulate all the direct, or as referred to in this case, the Prime Labor required by each productive department to produce a specific schedule of machines or units in a given time. The daily and/or weekly schedule will be maintained for an entire quarter.

As illustrated on the exhibit, 54 "A" type units are scheduled for each day's production, or 270 units for a 5 day week. The weekly period is used in keeping with plans to prepare a weekly budget analysis. Prior to this, a total prime labor figure per hundred units has been prepared by I.B.M. as required by each department to produce its portion of each unit. This data is established by a Methods and Rates department, and involves the piece work method of timing and paying employes. The direct, or prime labor per 100 units, is then extended by the weekly schedule of units and the amount entered in the proper line and column of the form. When complete, we have the total amount of prime labor which, according to the schedule and Methods and Rates study, is possible to expend. This amount, or total, is placed at the right of the form. Our sample shows only a few departments for illustration. In regular application, all departments are shown and the grand total Prime Labor is checked with that which is picked up in costs by the Cost Accounting Department as a proof or check.

We now have a known amount of Prime Labor for each productive department which must be spent to produce the proposed schedule of units.

EXHIBIT #2– QUARTERLY DEPARTMENTAL BUDGET

This form is prepared for all departments whether productive or non-productive. It is the base or quarterly budget which is set by mutual agreement of the divisional superintendent, general foreman and budget director with final approval by top management. The indirect material portion is prepared in dollars through necessity, but the remainder which pertains to labor is prepared in hours.

LOUISVILLE WORKS (APE-$1.65)

4th QUARTER DEPARTMENTAL BUDGET 1955 SEASON

Cost Center Sheet Metal Dept. No. 42 Dept. Name Sheet Metal

B.L. J.G. Blank Supt. L. Just G.F. L. Cull

DESCRIPTION	A/C	PREVIOUS $	PREVIOUS %	PRESENT $	PRESENT %	REMARKS
INDIRECT MATERIAL						
Land Improvement	41					
Bldg.&Bldg.Equipment	42					
Machy.& Aux.Equipment	43	127	7.5	113	5.7	
Ofc.Furniture & Equip.	44					
Tooling & Pattern Equip	45	146	8.5	284	14.4	
Other Plt.Prop.Expense	46					
Cutting Tools	47	63	3.6	63	3.2	
Abrasives	48	20	1.1	25	1.3	
Misc.Supplies	49	177	10.1	177	9.0	
Fuel	50					
Whse.Service Parts	121					
Total Indirect Mat'l		533	30.4	662	33.5	
		HRS.	%	HRS.	%	
LABOR (Exclusive 801)						
Total Allowance Hours		271	15.5	381	19.3	
Diff.-Untimed Mfg.	03					
Set Ups	05	310	17.7	350	17.7	
Mat'l.Movements	06	120	6.7	120	6.1	
Inspection	07					
Excess Cost-Due toInexp	08					
Excess Cost-Bey Control	09					
Overtime Premiums	10					
Rework & Salvage	11	100	5.7	160	8.1	
Clerks & Counters-Hrly	33					
Janitors	34	160	9.1	200	10.1	
Other Operating Labor	36	40	2.3	40	2.0	
Land Improvements	41					
Bldg.&Bldg.Equipment	42					
Machy.&Aux.Equipment	43					
Ofc.Furniture & Equip.	44					
Tooling & Pattern Equip	45					
Other Plt.Prop.Expense	46					
Cutting Tools	47					
Abrasives	48					
Misc.Supplies	49					
~~Shop Orders-Capital~~	714	330	18.9	450	22.8	
Shop Orders-Burden						
Whse.-Mach.&Attach.	120					
Whse.-Service Parts	121					
Whse.-Collaterals	122					
Mat'l.Handling Stores	123					
Total Labor (Excl. 801)		1381	78.1	1701	86.1	
Total Labor & Mat'l.						
PRIME LABOR ($3261)	801	1749 Hrs		1976 Hrs		
TOTAL MAN HOURS		3080		3677		
(40 hour wk.)		(77 Men)		(92 Men)		

EXHIBIT-2.

It should be explained at this point, that direct materials are in no way picked up by this budget. This is an overhead expense budget only. The direct, or prime labor, appears for use as a base to which all overhead accounts are related percentage-wise for comparison purposes. It is, of course, included in order to calculate the total manpower required by each department.

On Exhibit #1, we found that Department 42, Sheet Metal, would generate 3,261 prime labor dollars in one week if it performed all of the operations peculiar to that department for the proposed schedule of units to be manufactured. This amount is entered on Exhibit #2 next to Prime Labor at the bottom of the form. We must now begin to deal with hours. A payroll analysis provides the Average Piecework Earnings (APE) for each productive department. In this case, it is $1.65 per hour and appears in the upper right corner of the form. The total prime labor ($3,261) divided by the average piecework earnings ($1.65) results in the number of hours (1976) required to produce the prime labor portion of our schedule. These hours are placed opposite "Prime Labor" in the "Present" column, which is the base budget we are establishing for the 4th quarter on a weekly basis. Up to this point, all of the facts are known and based on piecework time studies and schedules.

The budget hours for all other labor accounts are developed by the divisional superintendent, general foreman and budget director with final approval by top management. Each account is carefully reviewed and man hours needed for the schedule of production are finalized on the basis of operating knowledge, historical experience, and use of the previous budget for comparison purpose. In budgeting overhead accounts, the business or manufacturing firm with years of records and experience has a great advantage over the newcomer to budgeting in setting fair budget amounts. A review of past expenditures, schedules and conditions allows for quick agreement of all concerned, and tends to build a more cooperative effort to establish and maintain a good budgetary control.

The man hours finalized for each account are shown on the form with a total for all labor excluding the prime, or in this case Acct. 801. These hours are then related to the prime labor hours on a percentage basis and become the Quarterly Base Budget for man hours, which is used in our next exhibit.

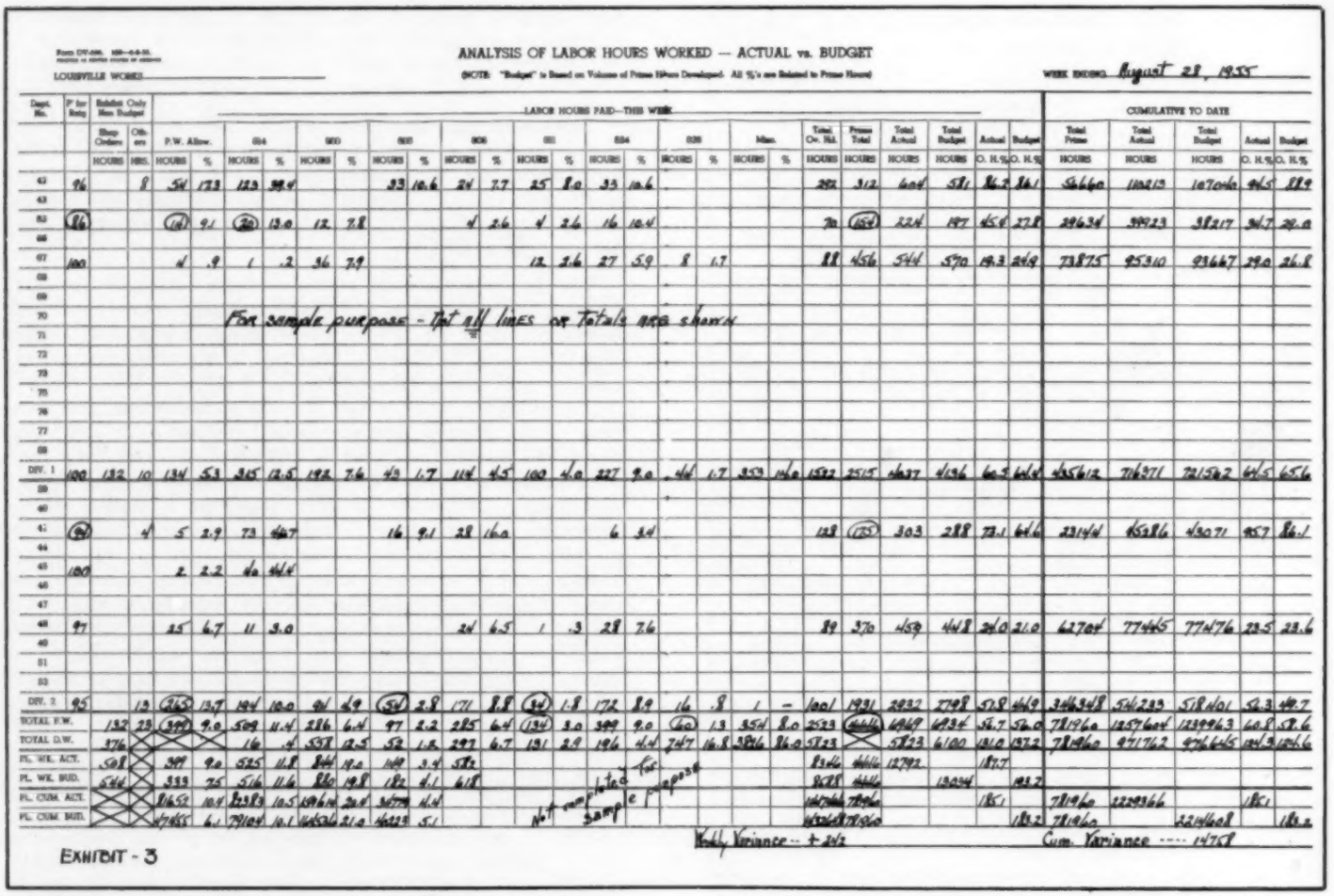
The Indirect Material section of the base, or quarterly budget, is prepared on a dollar basis and represents such overhead items as are normally found in accounts covering repairs to buildings, building equipment, machinery, tooling and other miscellaneous supplies. Past records and experience play a big part in establishing this section of the budget. Studies have been made to determine the frequency of sharpening cutting tools and their ultimate usage period. This sort of research is long termed and costly, with the results requiring a period of instruction and education to factor personnel. The fact that a certain drill used in producing a part will have its longest life if operated at a specific speed and feed into the part, and resharpened after so many pieces have been drilled, is not an easy thing to teach and have your teachings put into practice. For this reason, practical experience with trial and error prove adequate in establishing reasonable amounts as budget objectives for indirect materials.

In many businesses, and especially the manufacturing type, indirect materials can be as much as ten percent of all overhead expenses. Because of this, it is necessary to give much concern to the art of "Tightening Your Belt" until a true low is reached. It is normal for the factory man to say, "This is it. I can't operate with anything less". However, over the period of six months or a year, this true level can be found and once found, it can be maintained. Remarkable economies can be enjoyed in this phase of budgeting. Usually, a requisition is needed to obtain these materials for a crib or stores. If so, these requisitions should be closely reviewed by the departmental supervision and even by the general foreman as a means of close control.

The foregoing has explained Exhibit #2 as it is prepared for productive departments. It has been related to prime labor produced in those departments. We must now prepare similar base budgets for the non-productive or day work departments, such as Janitors, Powerhouse, Plumbers, Electricians, Tool Room and Machine Repair. These are all such departments as are needed in most manufacturing operations and do not relate themselves to direct or prime labor.

In a large manufacturing operation, it is difficult to say that a specific number of men are needed to maintain the many intricate systems, machines, etc. Over the period of time, the different departments form a pattern of manpower needs as production goes up or down. These patterns can be related to the total prime labor hours for the entire plant. If we say that our new total plant prime labor will require 5,000 hours for a certain production schedule, and we raise that schedule so that 6,000 hours are needed, then we can expect our Machine Repair Department to need some additional help. This holds true with other departments and patterns formed to give us the up and down trend.

It is felt that by relating the non-productive departments to the total plant prime labor, we set up a means of measurement or comparison of one to the other. The indirect material dollars and the labor (exclusive of prime)



ANALYSIS OF LABOR HOURS WORKED — ACTUAL vs. BUDGET

LOUISVILLE WORKS

WEEK ENDING August 28, 1955

EXHIBIT - 3

hours are established by the usual meeting of departmental and divisional heads, and the budget director. Amounts and hours are reviewed with past performance, trend curves and proposed schedules, before being set down as acceptable by all concerned.

Much has been said and written about the top management or budget director that operates by wielding a club or by striking fear into the hearts of those who are responsible for meeting a budget. Nothing need be added about this medieval approach. Here is the phase of budgetary control where human behavior starts many teams working towards a single objective or aimlessly in opposing directions. The budget director is the liaison or intercommunication between top management and factory supervision, and ultimately down to the worker. It is his attitude which, in the long run, is reflected in the budgets.

EXHIBIT #3 – ANALYSIS OF LABOR HOURS WORKED – ACTUAL VS. BUDGET

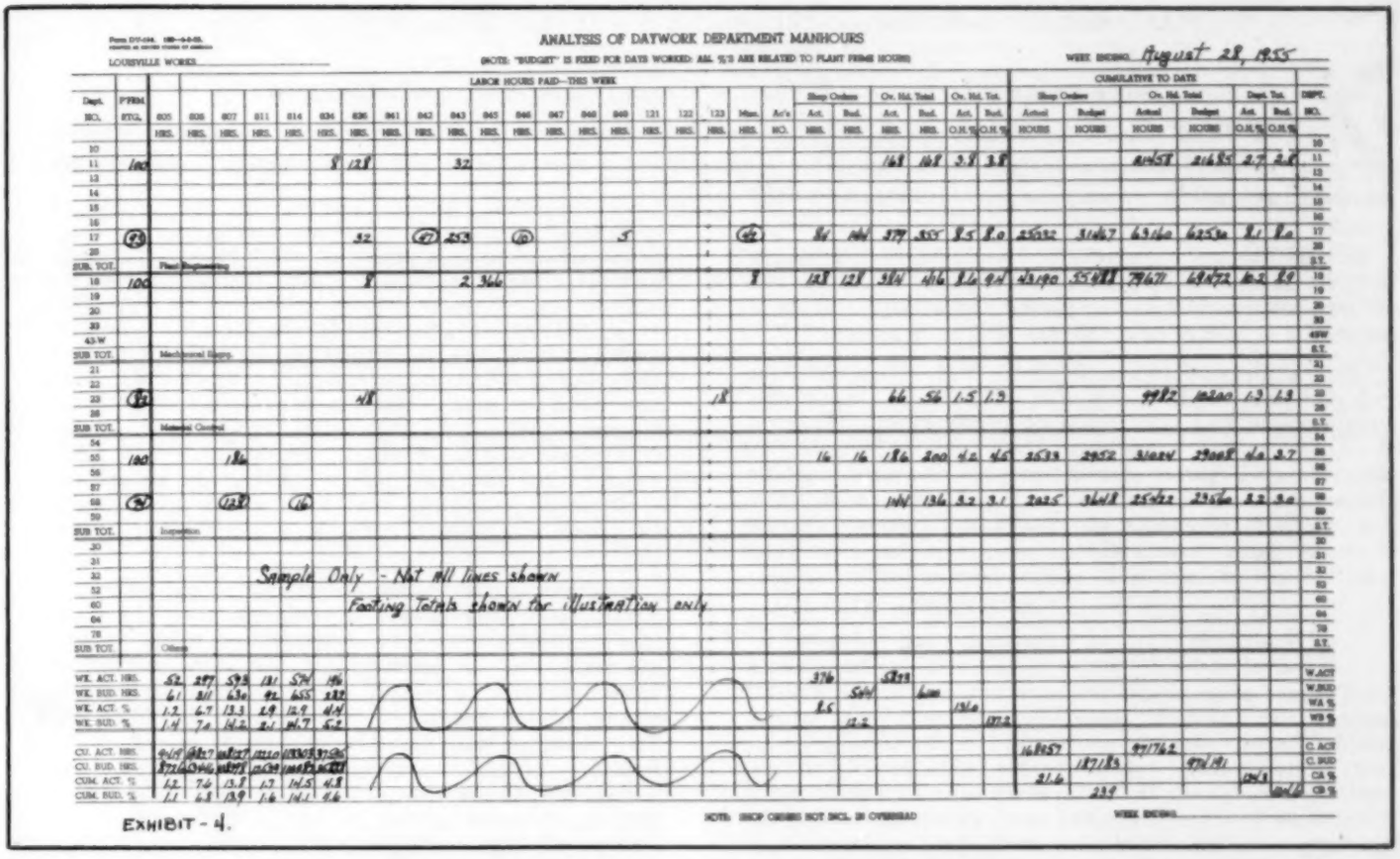
This form is prepared weekly and is designed to show the actual labor hours worked in detail by accounts and in total hours compared to the total budgeted hours. It is prepared on a ditto master and distributed to each department appearing at the left of the form, as well as top management. All figures are entered in pencil, which eliminates a good sized typing task. The fact that each department can see what is happening to its neighbor, sets up a competition. The competition is carried into a weekly meeting of factory supervision where a more detailed review is made and high performance departments are cited.

The basic document used to obtain data for this form is the Labor Distribution, which in this case is prepared by an I.B.M. section. The distribution provides department number, account, amount of money and hours. This is made available through use of a Daily Labor Ticket prepared by each employe and routed through Timekeeping to I.B.M. for tabulation. A copy of the distribution is provided the Budget Section for use in constructing the form we are studying.

The method of preparing the weekly Analysis of Labor Hours Worked is simplicity itself, which is one of the advantages of this type budget. Total hours worked in each account for each department are taken directly from the I.B.M. prepared labor distribution and entered in the proper space on the form. It will be noted that two columns appear at the left of the form under a heading "Exhibit Only – Non Budget". This is provided to cover minor reasons for using manpower which we do not feel important so far as this budget report is concerned. This manpower is kept to a minimum and is watched closely by the budget director to assure that it is properly used.

After all hours have been entered and cumulative totals made, a percent to prime labor hours is developed and entered. The total prime or direct labor hours, like all the other accounts as shown on the distribution, are entered directly on this form and is the base to which all the other accounts are related percentage-wise. To follow this on Exhibit #3, we may take 123 hours under account 814 for Department 42 and divide by 312 Prime Labor hours, with a result of 39.4 percent.

The total overhead hours for this same department is 292 for all accounts excepting Shop Orders, Others and Prime. The total actual hours represent all hours actually worked for both overhead and prime, and as shown on the form is 604 hours. The Total Overhead Hours are related to the Prime Total Hours and again in the case of



ANALYSIS OF DAYWORK DEPARTMENT MANHOURS

LOUISVILLE WORKS

(NOTE: "BUDGET" IS FIXED FOR DAYS WORKED: ALL %'S ARE RELATED TO PLANT PRIME HOURS)

WEEK ENDING August 28, 1955

LABOR HOURS PAID—THIS WEEK

CUMULATIVE TO DATE

Sample Only - Not all lines shown

Footing Totals shown for illustration only

EXHIBIT - 4.

Department 42, is found to be 86.2 percent which is entered on the form.

The base or quarterly budget (Exhibit #2) prepared for Department 42 indicated that 86.1 was the overhead percent of prime labor that was to be allowed. The percent is entered in the proper space on our weekly analysis form. The total prime labor hours actually developed is extended by the 86.1% budget and added to the result to obtain the Total Budget Hours.

At this point, there is a complete picture of the department. We know how many prime and overhead hours have actually been worked and have a comparison with budgeted hours. In addition, there are percentages related to prime hours for each account and in total which may be compared to those set up in the base budget, or Exhibit #2. The cumulative to date is self explanatory. A performance rating is developed to give a quick summary of how each department has performed for the specific period. The Total Budget Hours are divided by the Total Actual Hours to get this rating. This might also be done by using the overhead hours only. One line of thinking is that the prime labor hours should not be included in that they tend to distort the true performance of controlling overhead. This has not been considered in the present form.

It may be noted that several figures are circled. This is done where the performance rating falls below 95%. Each account is then compared with the base budget and circled where the percent is more than that which is budgeted. In the case of prime labor falling below the budgeted amount, a reverse effect is felt to the percents and so this is also circled. These circled areas point out where practices should be reviewed and supervisory action taken.

Performance ratings are not shown to exceed 100%. Exception may be taken to this and the true rate entered as a psychological effect often noted where competition exists. Consideration must be given to unusual circumstances which may have distorting effects.

The provision for totals at the bottom of the form includes daywork hours which are taken from Exhibit #4, and budget percents and hours on a weekly and cumulative basis. Using account 805 as example (other accounts cannot be balanced due to our own peculiarities), the preparation of totals may be followed. The Total P.W. or piecework, which is 97 hours and 2.2%, covers the total on Exhibit #3. The Total D.W. or daywork is 52 hours and 1.2%, and is taken from Exhibit #4 without complete detail for that total. These two are then totaled to 149 hours and 3.4%, which is the Plant Weekly Actual. The Plant Weekly Budget is developed by totaling all the departmental basic budget percents to prime to find the total which represents the whole plant. This is 4.1% which is multiplied times the plant prime labor of 4,446 hours with a result of 182 hours budgeted for account 805. The hours are accumulated in the next two lines and related to the cumulative plant prime hours of 781,960 to arrive at the percents. This has the effect of carrying previous quarterly or base budget percents, which may have been more or less than the current one, and averaging them into a cumulative budget percent for several quarters.

Although the explanation of this particular form has seemed long and cumbersome, the actual preparation is streamlined and simple. All postings from labor distribution are made at one time. The percentages are developed quickly by the use of prime labor reciprocals for each line. Experience has shown that one person can complete this form in less than a half day.

EXHIBIT #4 – ANALYSIS OF DAYWORK DEPARTMENT MAN HOURS

This form is prepared weekly and is designed to show the actual daywork departments man hours worked in

(Cont'd on Page 20)

FIXED ASSETS -- CONTROL OF EXPENDITURE AND TECHNIQUE OF ACCOUNTING

By: Frank Judd

Assistant Comptroller, Brown & Williamson Tobacco Corporation, Louisville, Kentucky

Control of fixed asset expenditures through Management Committee rather than through budget control, has definite advantages in the Tobacco industry. Read how project approval, cost accumulation and record-keeping procedures are all geared to get results -- what more could management ask?

We manufacture cigarettes and other tobacco products in three manufacturing plants located in three states, and we own tobacco processing plants and a large number of warehouses, mostly near the manufacturing plants.

One of the manufacturing plants was constructed for this company (the first unit of it in 1928), and two plants were acquired by absorption of predecessor companies about twenty-five years ago. The company has its own Engineering Department and two well equipped machine shops which provide practically all maintenance services. The shops also produce all conveyors, a certain amount of repair parts, especially for machines that have been modified by us, and also many types of rolling boxes.

In addition, the shops carry out conversion and adaptation of equipment and, on occasion, even construct an entirely novel special purpose machine. There has been a good degree of technical progress in the industry, even if neither the basic cigarette, nor the packaging of the product, have changed significantly in appearance in the last twenty years, except for the addition of the tear tape. However, even if the filter tip cigarette in Brown & Williamson is a product with twenty years experience the sudden growth has added many problems peculiar to large scale expansion, Thus, I believe that just about all the problems of controlling fixed asset expenditures and of accounting for the fixed assets are present.

In common with most companies we found after the end of the war that our record system had deteriorated, and step by step we rebuilt our procedures and modernized them. We were favored in the process by finding on the job a younger man who combined knowledge of office procedures and accounting with a keen interest in technical equipment. With him this job rose from a rather low rating in the accounting department hierarchy to a respected position in which he received supervision over fixed asset accounts of all plants. The personnel aspect of letting the right man grow with the job, rather than promoting him out and trying another newcomer out on it is a point that should be given the importance it deserves in organizational planning.

PROCEDURES FOR CONTROLLING FIXED ASSET EXPENDITURES.

On several occasions the management considered a budget for capital expenditures. However, we actually never went any further in that direction than including estimates for known or probable projects in our cash forecast for the next four three months periods, and also in the rough projection for the next five years. The cash forecast, as distinct from a budget, at least for fixed asset expenditures, has almost no element of discipline to it. The management will consider a new project on its merits whenever it is presented, and no thought will be given to inclusion or failure to include in the cash forecast.

The reason for this attitude is basically that in a cigarette company fixed assets typically amount to less than 10% of total assets. The big items are the tobacco inventories in process of aging. For the large cigarette companies it is very rare indeed that fixed asset expenditures even in a period of great expansion reach the total of current depreciation plus earnings retained during the year. Thus, it seemed better management practice to leave fixed asset expenditures free from direct budgetary restrictions so that desirable projects for expansion, for process improvements, and for labor savings may have the green light for immediate consideration at all times. Measured against the overwhelming importance of position of the brands in the market and of the high value of the raw material, which quickly amortizes any successful innovation that will reduce the breakup in handling, any postponement of a meritorious project is likely to prove very expensive.

For these reasons, the controls were put strictly on a merit basis, rather than a budget basis. The company rule is that projects for construction work, equipment purchase, and for maintenance, involving alterations of some kind must be brought before the Manufacturing Committee, if the estimated expenditures exceeds $500.00. The Manufacturing Committee is made up of the Vice-President of Manufacturing, Director of Operations, Plant Managers, if they are in town, Chief Engineer, Purchasing Manager, Head of Leaf Department, Head of Labor Relations, and Assistant Comptroller. If the project is between $500.00 to $1,000.00 and the Committee expresses approval, the plant concerned is notified to go ahead, without a record in the Committee minutes.

For projects over $1,000.00 the initiating plant submits it's plan to the Committee following a set form, similar to the proposal reproduced herewith.

(Cont'd on Page 15)

LETTERS TO THE EDITOR

We wish to acknowledge the many letters, containing kind words and best wishes, received after distribution of the new and bigger Business Budgeting magazine. It seems safe to report, now, that N.S.B.B. members heartily approve the combination of the Society's publications into one magazine,; may we print one such letter received, as representative of the many received...it is from Mr. C. L. (Chuck) Lineberger, our National President just two short years ago:

"Editor, Business Budgeting:

"Please permit me to congratulate you for the very fine issue of Business Budgeting magazine, October 1955. Those of us who have put considerable sweat into this organization in past years are really most pleased with the fine editorial and layout job done to date.

"I trust this letter finds you well and prospering. My little letterhead company is coming along very nicely".

(Signed) C. L. Lineberger
Sales Manager, Manufacturing Division
Suttle Equipment Company, Chicago.

Thanks--and best wishes to you too, Chuck.

BROWN & WILLIAMSON TOBACCO CORPORATION
LOUISVILLE, KENTUCKY
JULY 15, 1955

Proposal No. 465

1. Description

Purchase one (1) Seybold "Saber" Auto Spacer Cutter, Model S-51, complete with electrical equipment and one (1) knife.

2. Purpose

For cutting revenue stamps the Louisville factory has two paper cutters, one acquired as part of a merger in 1930 and one purchased new in August 1937. The cutter acquired in the merger, which had been held on a standby basis, is now completely worn out and is beyond economical repair. With the increased volume of manufacture the remaining cutter is being operated 12 to 14 hours a day by a crew of two. It is obviously undesirable to work two people for such long hours for a considerable time, and our choice really must be between adding a night crew or purchase of a higher speed cutter.

We favor the purchase of the above described high speed cutter for two reasons:

(1) Recourse to a night shift without purchase of another cutter would leave us with practically no reserve capacity in case of temporary breakdown.
(2) Purchase of a high speed cutter and retention of the present cutter as standby would put us into a safe position and the savings in operating cost over a two shift operation would amount to approximately $7,000 per year. A saving of $7,000 will amortize the entire installed cost of the new cutter in 22 months (before giving weight to income taxes). There is every expectation that the new cutter will be used for the indefinite future. Even if the revenue stamps themselves are withdrawn and excise taxes paid on a return basis we will still need a strip of paper to close our package.

3. Cost

One Seybold Paper Cutter (quotation of July 14, 1955	$12,500.
Estimated freight and installation.	300.
TOTAL	$12,800.

4. Time

Delivery during August or September 1955.

5. Classification

Machinery & Fixtures

6. Remarks

No additional maintenance costs.

(Signature) Factory Manager

For a number of reasons I selected for illustration purposes a rather simple project which also shows a fairly short amortization period. This factor explains also why the project does not deal with depreciation and interest on investment.

The proposals are regularly circularized to the Committee members in advance of the meeting so that everyone has a chance to consider the proposal. We may review costs of similar projects, and we may inspect the particular operation or location involved. This procedure, assisted by a sympathetic chairman, has had the effect of overcoming the natural tendency, to which we had been subject probably as much as anybody, of letting Engineering have its projects and of letting each factory have what they propose, on the idea that if it turns out wrong it is Bill's funeral, or, if Bill sees it early enough there will just be improvisations and changes in plans as the project progresses. All of us know how costly poor initial planning is, and we all know instances of setting up the wrong size, overlooking part of the needed essentials or of placing the equipment in the wrong location.

As a rule, the Manufacturing Committee has a full and free discussion. The majority of the projects, which now are much more carefully prepared, are passed as requested, but some are modified, and some are killed.

If the project passes the Manufacturing Committee, it goes to the Executive Committee, which is under the direction of the President. The Chairman of the Manufacturing Committee, or the Vice-President of Manufacturing or the Director of Research present the projects recommended which may or may not be discussed in detail. As a rule the Executive Committee gives it's sanction by approving the minutes of the Manufacturing Committee.

CONTROL PROCEDURES SUBSEQUENT TO APPROVAL OF PROJECT.

For each project adopted all costs are assembled under the project number. In fact, on larger projects, especially those that require construction and installation work by contractors' labor or by our employees, we very frequently assign several work order numbers in order to ascertain the costs of the different segments of the job, for the sake of expenditure control, as well as for accounting purposes. After all, we seldom overhaul a large dryer or a moisture distribution or an air conditioning system by merely replacing worn units with new ones of exactly the same design, size, and material. Most of the time the project description carries the information that additional coils will be installed, a higher rated motor will be used, or that stainless steel will replace galvanized iron. Any of these changes to us, of course, mean that we have to capitalize parts of the project, and quite likely withdraw from the accounts some portion of the asset originally set up and to charge to current maintenance, or repairs and renewals, as we call it, another large portion. We have also learned from experience that it is very little trouble to break down a project into more separate work orders at the time work is started, and we will insist on that, .if there is any chance that we may want to set up a particular segment by itself, because we may conceivably withdraw it by itself. But if we miss our chance at that point we are off the safe trail covered by records, and we are thrown into the treacherous realms of wild guesses.

Materials purchased or withdrawn from our stock room are charged to the work order at cost, contractor's labor is charged at the amounts billed, and our own shop labor is charged on the basis of daily job tickets carried by each hourly paid man. At this point we allow one short cut. We price out all hours expended by our shop labor at a uniform rate which is calculated to include machine shop overhead up to and including the foremen and the depreciation on machinery and space. The use of a uniform rate saves us a good deal of time and argument. In general, our feeling is that jobs which are done away from the shop with light tools frequently are the ones that take more foremen's time. Therefore, we feel that there is

enough justification for holding on to a uniform rate. On the basis of the material charges, contractor's invoices, and shop tickets we accumulate the cost against each work order and the entire project each month.

A listing of the expenditure status of the projects for each factory is submitted monthly to the Assistant Comptroller and brought up for discussion in the Manufacturing Committee, whenever it seems warranted. This is done regularly as soon as it becomes apparent that a project will run significantly over the amount approved in the original proposal. Quite frequently the responsible department will submit an explanation of the excess expenditures, and a formal amendment of the original proposal is prepared and recorded as soon as the revisions and amounts become reasonably definite. Such amendments, as a general rule, throw a somewhat unfavorable reflection on the original planning. The monthly summary is presented using the following layout:

EXPENDITURES TO DATE ON MANUFACTURING COMMITTEE PROJECTS*

Louisville Plant
August 31, 1955

	317 Repairs to Conveyor #11	341 Circuit Breaker Panel	349 Alterations Leaf Dept.	351 Finnell Scrubber Mch.
Original Approval	5,000	6,050	115,000	1,905
Amt. incl. Amdt	5,000	6,050	115,000	1,905
Mach. & Fixtures			6,055	1,925
Fixed Plant		2,131		
Construction Accounts				
Fixed Plant		2,050	11,082	
R.E. & B.				
Mach. & Fixtures			18,500	
Repairs & Renewals	3,515		21,215	
Warehouse Expense				
Total	3,515	4,181	56,852	1,925

Projects on which expenditures to date exceed the approved amount are underlined. Our complete report showed three projects out of 25 with excess amounts, none of them more than 10% over.

All projects are subject to post-audit. With regard to projects justified on the basis of operational savings the Cost Accounting Department at the plant prepares a formal Post Audit report which covers project expenditures, as well as comparison of realized savings versus projected savings claimed in the original proposal.

We have found in the six years we have been operating this system that the instances of large percentages of excess costs have become infrequent, although they still occur, and some times for perfectly good reasons. We are convinced that the procedure has resulted in much better estimates and in much better planning. We are also convinced that our capital expenditure dollars have been spent a good deal more effectively. It may be interesting to mention that Post Audit Review on savings projects almost invariably presents the conclusion that savings were estimated on the conservative side, and we know of only very few instances where projected savings were not entirely realized.

ACCOUNTING PRINCIPLES

Our accounting principles for fixed assets as far as we are aware follow the general rules. We try to be as consistent as possible, and we aim at capitalizing all significant expenditures which are expected to provide benefits over more than one accounting period, and we want to keep track of such assets. On the other hand, we do not want to set up items which are discarded before the unit is put on the production line, and neither do we wish to maintain fixed asset records for a multitude of items of small value.

Following these ideas we decided to provide separate records for all items which, in our experience, are frequently moved independently. The most obvious illustration are motors received as part of a purchased machine. We automatically set up a separate record for the motor, even if we usually do it without value, because on the next inventory the motor may very well turn up somewhere else. At this point we aim at a separate record for everything separable.

Pieces of equipment which merely carry freight in are taken up directly in Machinery & Fixtures. Items which require installation costs, or which involve shop work, are carried in construction account until the job is reported completed. At that point accounting and shop personnel review the costs to ascertain that all charges have been recorded and also what portions of the job, if any, have been removed and returned to stock or abandoned as junk. The account is then cleared of items removed and the balance set up in Machinery and Fixtures. A similar procedure would apply to overhaul jobs involving capitalizable portions as well as expense charges.

The problem of the mass of small items cluttering up the fixed asset records we tackled successfully two years ago by establishing the following principles for all manufacturing plants:

We will not set up items costing less than $50.00 each, unless one of the three stated exceptions applies;

a. The item is part of a capitalized item at the time of original acquisition.
b. The expected quantity of a specific small asset item has a total cost of over $500.00.
c. We will set up all motors, and a few other categories for which, for reasons of control, we affix numbered metal tags.

When we put the change into effect we found that by value the eliminations amounted to 1½% of total machinery and fixtures. Yet, by volume the eliminations reached over half of our total listings. Incidentally, the fact that we eliminated small value items from our detailed fixed asset records did not mean that we dropped plant accountability. We still receive annual inventories of these items, we insure them, but we are relieved of the need of tracing the movement of each switch, vise, pulley, or soap dispenser. Since many of these small items were moved a great deal from one location to another these items gave a disproportionate trouble in keeping up with them each month, as well as in reconciling the records with the annual inventory at the year end.

Incidentally, we found the systematic use of prenumbered metal tags affixed to machines, motors, fire extinguishers, conveyors of immeasurable help in maintaining inventory control.

TECHNIQUE OF MAINTAINING ACCOUNTING RECORDS FOR MACHINERY AND FIXTURES.

In our company the basic accounting record for fixed assets is maintained in the monthly accounting papers of each plant showing details of additions, withdrawals, and transfers in the accounts.

With regard to inventory records we converted from a manually maintained system based on repetitive binders keeping the items (1) in inventory number order, (2) in location order, (3) type of asset order to an I.B.M. punch card system after the removal of the small value items

(Cont'd on Page 22)

INDIANAPOLIS-CINCINNATI-LOUISVILLE TRI-CHAPTER MEETING HELD

The second annual "Tri-Chapter Meeting". . .a gathering of members of the N.S.B.B. Chapters from Indianapolis, Cincinnati and Louisville, was held last month with the Cincinnati Chapter serving as hosts. The first meeting took place last year in Louisville, and was such a success that the three chapters decided to make it an annual event. The above photograph shows the group at dinner. Mel Aichholz, president of the host Chapter, is seen at center of the speakers table. Others you'll recognize are Don Hall, president of the Louisville Chapter; Clyde Seeley, vice-president of Indianapolis Chapter; and Walter Moore, Cincinnati Chapter vice-president and program chairman. Assisting Mr. Moore in arranging for the affair were Chick Reynolds, Walter Gaver, Joe Hoffman and George Gausing, and the entire Cincinnati chapter membership. Members of these three chapters heartily endorse the plan, and suggest other adjacent chapters might find the idea a good one.

CHAPTER NEWS

Gleaned From Chapter News Letters

LOUISVILLE--The Chapter went military for their November meeting, listening to Lt. Col. Charles R. Thomas Jr., of the Comptroller Section, Armored Center, Fort Knox. In their November Newsletter, the Louisville Chapter points out what we had intended to scoop them on---they have the one and only female member of the N.S.B.B. She is Miss Amber Henton, and she's the budget director at the U.S. Naval Ordnance Plant in Louisville. Yes--that was her...she...you saw in the photograph taken at the Indianapolis Conference which appeared in our October issue.

PHILADELPHIA--Robert Lobb of the Philadelphia Gas Company was the November meeting guest speaker, telling about public utilities budgeting. The Philadelphia Chapter is cooperating in several Workshop Seminars in the field of budgeting, scheduled by the American Management Association in New York. Interested persons may contact the A.M.A. Seminar Registration Dept., 330 West 42nd Street, New York 36.

NORTHERN NEW JERSEY--"The Appraisal of Capital Expenditures" was discussed by Mr. Stanley Green and Dr. J. P. Cogan, at the November meeting. Mr. Green is an analyst for the Johns-Manville (and a contributor to Business Budgeting magazine); Dr. Cogan is the head of the technical department of Bayonne Refinery, Esso Standard Oil Company.

CHICAGO--The chapter reports a membership of 71, as of November 1st. At their November meeting, Arthur Rosenbaum spoke on "Economic Outlook for 1956". Mr. Rosenbaum is manager of the Economic Research Department of Sears-Roebuck. Because of its size, the Chicago Chapter has created the position of Assistant Secretary.

CINCINNATI--The Cincinnati Chapter has plans to conduct a meeting at which students of the local universities who are interested in budgeting, will hear a discussion on the field of budgeting. This Chapter has cooperated with Indianapolis and Louisville in an exchange-speakers program; Bob Herrman and Marty Perkins, from Williamson Heater Co., spoke at Louisville in September. Last month Joe Deiterman, Joe Hoffman and Dick Shaw went to Indianapolis to talk on "Capital Expenditures".

CLEVELAND--"Product Evaluation--Marginal Income Concept" was the October meeting subject, presented by Mr. R. C. Trundle, president of the Trundle Engineering Company. The September meeting of this Chapter was their largest ever (74 members and guests) who heard John Dearden, Assistant Manager of the Profit Analysis Department, Ford Motor Company.

DALLAS--Dallas, too, heard from Ford. James F. Black, Plant Controller for Ford's Dallas Assembly Plant, spoke on "Budgeting for Direct Labor and Manufacturing Overhead", last month.

ALL CHAPTERS--Send copy of your Newsletter to ye editor, Business Budgeting!

FORECASTING FOR PLANNED PROFIT AND CONTROL (Cont'd from Page 6)

AN AID TO MANAGEMENT

We have developed a sound prodedure for forecasting the following years sales and for checking on results, with provision for correcting adverse results as the year progresses. Do we stop here? Is the program just to stimulate our salesmen? Perhaps it has other uses. We need some new equipment which will cost $100,000. Can we afford to buy it? There is a new market to be developed. Can we enter it? A good advertising program has been presented which will further our business. Is this the time to start? We can carry our forecast into the management planning area.

We know the sales dollars to be retumed by each division. It is a simple matter to prepare gross profit statements for each. Applying the average cost for each division (in our industry, each division may vary in this respect due to its character of sales) will give gross profit we can expect from each. Supply the known selling expenses, and allocation of administrative overheads, and we have the expected operating profit for the company. This brings us to the real value of a forecast.

ADVANTAGES GAINED BY FORECASTING

Management can go to the Board of Directors and say "Here is what we will make next year". A known portion is to be used for taxes and dividends, leaving 'x' dollars for company use. On this basis, possibly management can also say, "We can allocate so much for that new market we have wanted to open" – "that radio network we wanted to use can now be afforded" – or "that new installation in the plant will be justified". Through sales forecasting, management is provided with a sound appraisal of the future, rather than mere guesses. At interim Board of Director's meetings, progress can be reported substantially, the program decided upon. Any adverse condition arising can be met with decision and, if necessary, a timely curtailment of the program.

RELATIVE SELLING EXPENSES - BY DIVISIONS

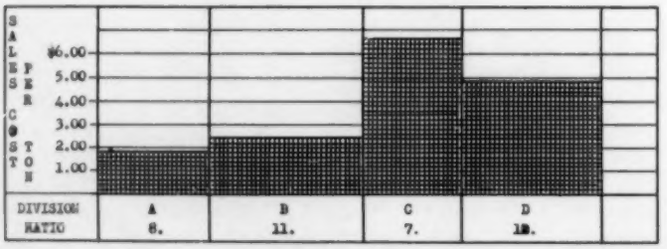


EXHIBIT 4

Economic conditions today demand a constant check on where we are going and whether our sales forecast and profit prognostication will be realized. As an additional aid to our sales tonnage and dollar comparisons, we have developed another check which is used periodically and can be used to great advantage in ensuring our ultimate aim of better profits. Exhibits 4 and 5 reflect respectively, Relative Selling Expenses and Relative Selling Profits – by Divisions. By relative is meant the relation the individual divisions bear to the total rather than the relation they bear to the sales dollar or unit sold. These two charts poignantly exhibit the need of some course of action in the case of Division C. Earlier, it was pointed out that while Division C was ahead of its forecast, both in volume and sales dollars, although it represented only 3 percent of the Company's sales while enjoying 20 percent of its potential, Exhibits 4 and 5 put the finger, so to speak, on this Division even stronger. Of total selling expenses, as plotted in Exhibit 4, 7 percent was expended at a higher cost per unit than any other Division shown. Subsequently, as shown by Exhibit 5, Division C retumed only ¼ percent of the Company's selling profit. Something must be definitely wrong and demands management as well as sales attention. To get the most effective portrayal at the foregoing, one must read results as presented on Exhibits 2 through 5. A broad envisioning of the facts portrayed is required and should not be done hastily. It should be noted that the ratios shown on Exhibits 2 and 3 are determined by past experience and those shown on 4 and 5 are actual as of the time of their preparation. Likewise, Exhibits 2 and 3 are cumulative, progressive charts while 4 and 5 are single presentations as of the time of preparation. From our example, a detailed analysis of the sales and selling expenses in Division C is paramount.

RELATIVE SELLING PROFITS - BY DIVISIONS

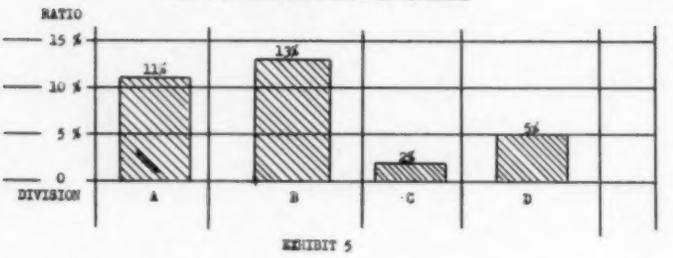


EXHIBIT 5

Visualize what further uses of good forecasts can be made. Planned production and from planned production, better budgeting of production costs. Is inventorying or storage costs less than overtime or excessive costs for seasonal production? Can standardization of production costs outweigh seasonal variations? What about planned maintenance and capital improvement? When is the most economical time for the plant to be closed for a major capital improvement? These and many more questions have an answer in a good, sound forecasting procedure.

After a year or two of education from bottom up, more experience is developed and sights can be raised from a one year to a two, three or five year program of forecasting. In a progressive company, which is profit-conscious a sound program of forecasting sales can help assure that profit. Weaknesses and their location are disclosed early and clearly and the corrective steps can be determined and taken promptly. It may be decided to switch personnel, give management aid, stress more profitable products, or even abandon a particular market. There may be an over-all emergency situation. A costly piece of equipment or even a new plant may be needed. Shall we gamble outlay on our hopes for next year or worry along with what we have? Next year's projected profit and loss has an answer which can lend that additional bit of assurance needed for the right decision.

(NOTE: Portions of the preceding article have appeared in the N.A.C.A. "Bulletin", 1953, and are reproduced here by permission of that publication.)

PERSONALS

BENEDICT APPOINTED OKONITE CONTROLLER

Clarence C. Benedict was named controller of The Okonite Company, manufacturers of insulated wires and cables, in Passaic, N.J., on September 19 by President R. Stuart Keefer.

Formerly budget director for all domestic and foreign company operations of the Nordberg Manufacturing Company, producers of heavy equipment, in Milwaukee, Wisconsin, Mr. Benedict also served for four years as manager of profit planning for the H. J. Heinz Company in Pittsburgh, and had previous experience as manager of cost accounting with the same firm.

Mr. Benedict was employed in cost analysis and control work by Standard Brands, Inc., at Peekskill, New York, and by the Goodyear Company in its Aircraft and Tire and Rubber Division.

A graduate of the Bentley School of Accounting and Finance in Boston, Mass., Mr. Benedict has done graduate work in business administration at the University of Pittsburgh. From 1943 to 1946, he served as an officer in the United States Air Force. He is a member of the American Management Association, the National Society for Business Budgeting and the National Association of Cost Accountants.

Mr. Benedict is married and is the father of three sons.

NEW BUDGET MANAGER FOR ELI LILLY

Kent R. Crawford, who has been in budgeting work for Eli Lilly and Company since joining the firm in 1951, has been named manager of the budget department.

Born in Avon, New Jersey, but reared in Indianapolis, Crawford was graduated from Thomas Carr Howe High School in 1944. After a year at Indiana University, he served fourteen months with the United States Navy. In 1948 he received a Bachelor of Arts degree in business economics from Indiana.

Crawford spent the next three years as an industrial accountant with the General Electric Company in Schenectady, New York.

He is a member of the Indianapolis chapter of the National Society for Business Budgeting, currently serving as a council member-at-large.

DALLAS CHAPTER GROWS

Three new membership applications for the Dallas Chapter have been processed:

Mr. Robert R. Arrington, accountant, Three States Natural Gas Company.

Mr. Wolford Kraybill, supervisor budget control, Chance Vought Aircraft, Inc.

Mr. Dan C. Rowe, cost control supervisor, British-American Oil Producing Company.

We welcome these men to membership in the N.S.B.B.

W. D. McGuire and H. C. Mason, of the Milwaukee Chapter, N.S.B.B., were discussion leaders at the American Management Association's Seminar No. 102a and 102b, "Building an Over-all Budget System for the Company", both held in New York in September and October.

The Philadelphia Chapter recently welcomed two new out-of-town members to their Chapter: Charles W. Richardson, assistant manager of the Budget Department, Reynolds Metals Co., Richmond, Va.; and Charles T. Utt Jr., Budget Director for International Textbook Company, Scranton, Pa.

NATIONAL OFFICERS CONFER

Shown above are, left to right, former National President Harry Kelley, our current National President E.G. (Buck) Mauck; vice-president A. E. Barry, and R. V. Millar, National Secretary. This was snapped at the recent National Board meeting in Philadelphia.

NEW MEMBERS ACCEPTED

Mr. Robert Gottschall, of the National Vulcanized Fibre Company, Wilmington, Delaware, has become a member of N.S.B.B. The Philadelphia Chapter is his nearest Chapter; we hope he can attend their meetings often.

The Indianapolis Chapter rolls have been increased by one: Mr. John A. Morris, budgeting supervisor, Schwitzer-Cummins Company.

Mr. Orvil Matteson, chief accountant, Scully-Jones & Co., Chicago, has joined the Chicago Chapter.

A new addition to the Milwaukee membership is Mr. Ernst M. Krell, supervisor of cost control and management information, Giddings & Lewis Machine Tool Co., Fond du Lac, Wisconsin.

Four new members have recently joined the big New York Chapter:

Thomas B. Allen, analyst, American Airlines Inc., New York;

Daniel W. Potter, assistant treasurer and manager of accounting, Arma Division of American Bosch Arma Corp., Garden City, N.Y.;

J. Read Taylor, budget director, Warner-Lambert Pharmaceutical Co., Inc.;

Michael P. Whyte, staff assistant, ACF Industries, Inc., New York.

And here is still another new member for Dallas: Mr. Andrew J. Hayes, controller's staff, Dresser Industries Inc., Dallas, Texas.

CONDUCTS A.M.A. SEMINAR

Donald L. Cartland, assistant controller, A. B. Dick Co., Chicago, Ill., served as an associate chairman at an American Management Association workshop seminar Oct. 3-4 in Cleveland, Ohio.

This discussion-type meeting delt with functions and organizations of the controller's job. The seminar is one of close to 500 meetings being held by the 21,000-member management educational association during the current year. Close to 60,000 executives will participate in the overall program.

Vic Cain, Milwaukee Chapter, has been elected Vice-President of Snap-On Tools Corporation. Congratulations to you, Vic!

(Cont'd on Page 21)

detail by accounts and in total hours compared to budgeted hours. The format differs from that covering productive departments in that percents to prime are not shown for each department's accounts. Percents are, however, developed for the totals of each account at the bottom of the page. The base budget percents to prime for all departments must be added together to determine the total plant budget percents which are used. The preparation of this form follows along the same lines as explained for the production departments. As described under Exhibit #2, it is necessary to relate all comparisons of daywork department hours to plant prime in that no prime or direct labor is generated by a daywork department.

The totals, where applicable, are carried over to the Analysis of Labor Hours Worked. This only affects one or two accounts which are common to piece and daywork and again is peculiar to our operation. Sub totals may be provided for the various groups, such as plant or Mechanical Engineering. The distribution of this form is to all departments analized and other management personnel.

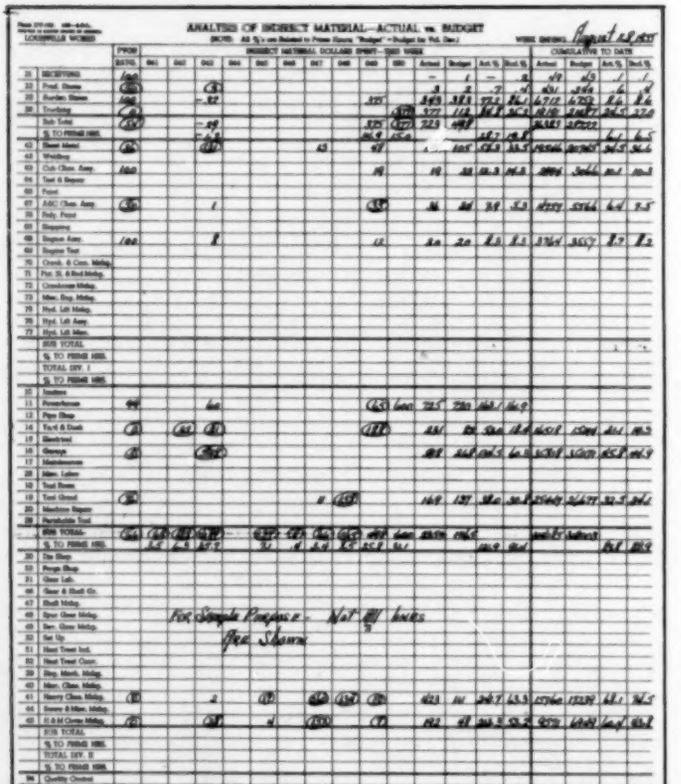

ANALYSIS OF INDIRECT MATERIAL—ACTUAL vs. BUDGET

EXHIBIT #5 – ANALYSIS OF INDIRECT MATERIAL

This form is prepared weekly and unlike the others, must deal with dollars. Indirect materials as used, may be defined as those materials not becoming a part of the finished product such as repairs to buildings, equipment or machines, tooling, abrasives, etc. As explained in our preparation of Exhibit #2, or Base Budget, all percents are related to prime labor as a means of measurement or comparison. Better ways of comparing might be possible for different kinds of business.

An I.B.M. prepared Summary of Materials provides the full data for posting to this form. All requisitions for indirect materials are tabulated by department, amount and account. This phase of budgeting is often handled loosely but if properly controlled, can be the means of large savings in expenses. Proper review of requisitions prior to approval by a supervisory employe is the starting point of control followed by close analysis of actual expenditures vs. budget. The calculation of percents follows the same pattern as the other two weekly analysis.

This form completes the weekly analysis of labor and material expenditures. A brief perusal can give the picture of labor hours compared to budget, indirect material expenditures, departmental, plant, weekly and season to date comparisons. As stated earlier, this study of the hourly budget was entered into with a certain curiosity and desire to learn. Refinement or short cutting are both possible. It does show a healthy condition of budget thinking in big industry where profits must be planned.

AND STILL WE GROW!

The following new-member applications have been accepted:

Clarence G. Kolb, supervisor of General Accounting, East Chicago Division of Combustion Engineering, Inc., East Chicago, Indiana.

Arthur R. Slaters, Manager Budget Control, Signode Steel Strapping Co., Chicago, Illinois.

Eugene R. Swede, Regional Cost and Budget Supervisor, Charles Bruning Company, Inc., Chicago, Illinois

I. N. Thompson, Budget Control Manager, Spiegel Inc., Chicago, Illinois.

Sam Tzakis, Assistant Chief Accountant, Webster-Chicago Corp., Chicago, Illinois.

William B. Welsh, Staff Assistant to the Controller, Charles Bruning Company, Inc., Des Plaines, Illinois.

Gerald E. Bowker, Chief Budget & Statistics, International Harvester Company, Louisville, Kentucky.

Paul R. Jacoby, Plant Controller, P. Lorillard Company, Louisville, Kentucky.

Joseph A. Alvarez, Controller and Asst. Secretary, Ramsey Corp., St. Louis, Missouri.

William C. Hassall, Accountant, Brauer Bros. Shoe Co., St. Louis, Mo.

A case was being heard in court in which a farmer was claiming damages for a cow killed on a railroad track Counsel for the defense put many boring and unnecessary questions, and finally asked the train's engineer: "Was the cow on the track?"

The engineer had had about enough. He answered smoothly: "No, of course not. She was in a field half a mile away, but when the engine saw her it left the rails, jumped the fence, and chased her across the field and up a tree. Then it climbed the tree and strangled her to death."

ABOUT OUR AUTHORS

FRED V. GARDNER graduated from the University of Missouri, and attended the Harvard Business School. His interest in variable budgets and dynamic costing was aroused by experience in shops of General Electric, and a successful installation in that company's apparatus plants was recognized by a Charles A. Coffin Foundation Award in 1935. Association with A. O. Smith Corporation led him into the management consulting field in 1937. He later was Treasurer of Chain Belt Co., president of the Smith Steel Foundry Co., and Director of several companies. He is the author of many articles on expense control, and a recent book "Profit Management". His firm, Fred V. Gardner and Associates, is located in Milwaukee.

Mr. W. R. Spurlock is a native Hoosier, and attended the University of Illinois, receiving a B.S. degree in Industrial Administration in 1924. He joined the Eli Lilly organization shortly after graduation, as an analyst in the Sales Research Department. He advanced to Manager of that department, later became Director of the Market Research Division, and assumed his present position as Executive Director of Merchandising in 1953. He is a vice-president of the American Marketing Association, a past-president of the Indianapolis Chapter; a member of the Committee on Business Statistics of the U. S. Chamber of Commerce. He is a member of Technical Consultants to the Business Advisory Counsel of the U. S. Department of Commerce, the American Statistical Association, and the American Academy of Science.

STANLEY Z. BRONNER was educated at New York University, and came up through the ranks in the accountfield. He is now Assistant Vice-President and Assistant Controller of the Bridgeport Brass Company, Bridgeport, Connecticut. He was formerly with the Monroe Calculator Co., the Western Electric Co., and the Brewster Aeronautical Corp. The author of numerous articles on cost accounting and budgeting subjects, he has received the Lybrand Award for literary contribution to the accounting industry. He is a member of the N.A.C.A., a past-president of the New York Chapter N.A.C.A., the Chamber of Commerce, the National Industrial Conference Board, and the Controllers Institute of America.

Mr. Frank Judd, assistant Comptroller, has been with Brown & Williamson Tobacco Corporation since 1947. Prior to that he was an analyst for Lehman Corporation, New York. During the war, prior to joining the Army, Mr. Judd was in the cost accounting work of O.P.A., in Washington as Section Chief, Industrial and Agricultural Machinery, and later Director, Financial Reporting Division. He is a member of N.S.B.B., N.A.C.A., and American Institute of C.P.A.'s. And here's something not even many of Frank's close friends know---he holds a doctor degree in Economics from the School of Business in Berlin.

V. A. (Ed) Vatter has been with International Harvester for 27 years, having served in many accounting capacities and is now Chief-Cost Accountant. He supervised the preparation of budgets and reports during the period I.H.C. was inaugurating its great budget program. He is a past president of the Louisville Chapter, N.S.B.B., and an officer in the N.O.M.A.

C. E. Manteuffel is Budget Director and Statistician for Jefferson Island Salt Company, Louisivlle, Kentucky. Prior to this, he was with the Reynolds Metals Co., Girdler Corp., American Elevator & Machine Co., and Reconstruction Finance Co., all of Louisville, Ky. He is a member of National Association of Cost Accountants and American Accounting Association, as well as a Charter member of Louisville Chapter, National Society for Business Budgeting.

PERSONALS (Cont'd from Page 19)

OUTNUMBERED!

Harry Bracey Jr., president of the Chicago Chapter, N.S.B.B., found the odds in his family change from even, to 4–to–2 overnight--his family, formerly consisting of one boy and one girl, was increased by two when Mrs. Bracey gave birth to twin girls on October 18, and the men are now in the minority. Best wishes, Harry -- where's our cigar?

ON WEST COAST

Hal Mason of the S. C. Johnson & Son, Inc., made a business trip to the West Coast recently, and while there met with three or four men who are members-at-large of the N.S.B.B., in Los Angeles. The possibility of a West Coast Chapter was, of course, the subject.

ADDRESSES TWIN–CITIES CHAPTER

E. G. (Buck) Mauck, our National president, addressed the October meeting of the Twin-Cities Chapter, N.S.B.B., on the subject of "What Management Expects From the Budget Director". The Minneapolis-St. Paul boys have found the answer to how to get good publicity in the local newspapers---they have enrolled the controller of the Minneapolis Star!

WELCOME TO N.S.B.B.!

The Cleveland Chapter reports the following new members:

Howard F. Duffin, Budget Director, E. F. Hauserman Co.
Joseph D. Kuten, Controller and Assistant Treasurer, Consolidated Iron-Steel Manufacturing Co.
Hugh McKibbin, Assistant Controller, Eaton Manufacturing Co.

A new member in New York is Mr. John W. Gladson, Assistant Controller, Esso Standard Oil Co.

WE MADE IT!

Because the folks who write and edit this magazine are amateurs, little things like publication deadlines and issue schedules are likely to frighten us into hysterics... but somehow everyone seems to come through with colors flying and like magic (plus a few hundred hours overtime work) the job gets done. We would like to pay tribute this month to Louisville and Cincinnati, who shared the responsibility for contributing the material for this issue. Louisville stepped into the schedule on very short notice, but you'll notice they met their obligation. Your turn is coming! Be prepared!

CHARTER PRESENTED TO NEW "TRI-CITIES" CHAPTER

The newest N.S.B.B. Chapter, originally identified as "Quad-Cities", has now adopted the identity of "Tri-Cities" (Moline-Rock Island-Davenport), and has received the Society's fourteenth Charter from Mr. E.G.Mauck, National President.

Mr. Walter A. Verbeck, president, in receiving the Charter, expressed the belief that the Chapter will experience steady growth, as there are plenty of industries in that area. The group has completed it's committee line-up and is working out their program for the coming months.

JOINS STAFF OF M.I.T.

Mr. Gordon Shillinglaw, formerly of the New York Chapter, has joined the staff of M.I.T. His membership has accordingly been transferred from the New York Chapter rolls to member-at-large.

PROFITS ARE WORTH PLANNING FOR

(Cont'd from Page 9)

tive Departments, and pays the full bill for such company expenses as Advertising, Research and Development, Financing, Accounting, and general corporate functions. The cost of product to the "wholesaler" is the plant billing price explained above. The selling price of the wholesaler to the retailer or, in other words, the home office to the branches, is a fixed discount from a list price. The spread between the billing price of the plant and this discount from list price is sufficient to cover the home office expenses and provide a profit at this level. This spread is also sufficient to provide flexibility in Sales Management to assist the branches in handling fleet and industrial customers, as well as to compensate the plants in periods of low activity. Pricing policy is established at this level with the objective of obtainingmaximum volume at the optimum selling price. It would be an oversight not to mention that at this level, budgeting policy is set for Plant, Home Office Department and Branch Operations, and the integrated over-all company budget is prepared. Profit objectives are set with reference to both sales volume and return on investment, and capital needs for cash, equipment, and facilities in all phases of company activity are integrated in the projected balance sheet.

BRANCHES. In effect, our branches constitute our retail organization. Each branch sells new trailers, used trailers that are taken in trade, and operates a service shop which repairs and maintains trailers, and offers an outlet for the sale of company parts. The cost of the units and parts sold in the branches is the selling price from the Home Office, a fixed discount from list price. The branches then sell such units and parts to customers at a lesser discount, the margin between the two figures being sufficient to absorb branch operating expenses and, in turn, furnish the third level of company profits. Each operating manager at this level together with his salesmen, is compensated in proportion to the volume and profits generated. In simpler terms, the personal objective of each manager to make the most money for himself is completely consistent with the company objective of obtaining maximum volume and profits. Everyone on the "firing line" has built in incentives to accomplish the company objectives, and incidentally to profit personally.

The purpose of the three-way profit split system is to develop profit consciousness at all levels of operation. By adding together the manufacturing, wholesale, and retail profits, we obtain the total profits of the company each month. Simple eliminations are necessarily made to pull out unrealized gross profit in inventory as an adjustment to the home office or wholesaler profit. We are convinced that this system has induced the enthusiasm of a man "in business for himself" at each level of our company's operations. Budgeting, profit planning, and the administration of our three-way profit split system all take lots of work and lots of selling. They are practices toward operations improvement that have been effective for us. As mentioned in the beginning, "if profits are worth while they are certainly worth working for".

FIXED ASSETS (Cont'd from Page 16)

had been completed. Our company uses I.B.M. extensively, and it developed that the I.B.M. Department was able to take the fixed asset job on at almost no cost, since it is almost never a split second rush job like billing or warehouse stocks.

As far as the additions and withdrawals and changes in location of inventoried assets are concerned the I.B.M. procedure did not require any change in the underlying report from the machine shop. However, it brought the advantage that once the change in status was recorded by punching a new card, and the cards checked against the report we automatically had all our listings in balance with the books, which previously had been a very time-consuming operation for our comptometer operators.

As usual, the I.B.M. card system shows the great advantage of flexibility in tabulation. We run off our inventories by tag number, by type of asset, by location, and by year of acquisition, or by any combination in segments. We automatically have our accounting records, as well as our insurance records, and we have a ready catalogue of available equipment.

Naturally, we were not able to put on the cards the cost breakdown on machinery constructed, converted, modified, or installed by us. This supplemental record, which, however, involves only 15% of the items carried, is still accumulated monthly from the job reports and is maintained manually. An illustration of such a record is shown in Exhibit "A".

Conveyor #625

1 - Conveyor #625 - 24" wide x 16'6" long for Turkish feed - Bldg. 1, Floor 5.

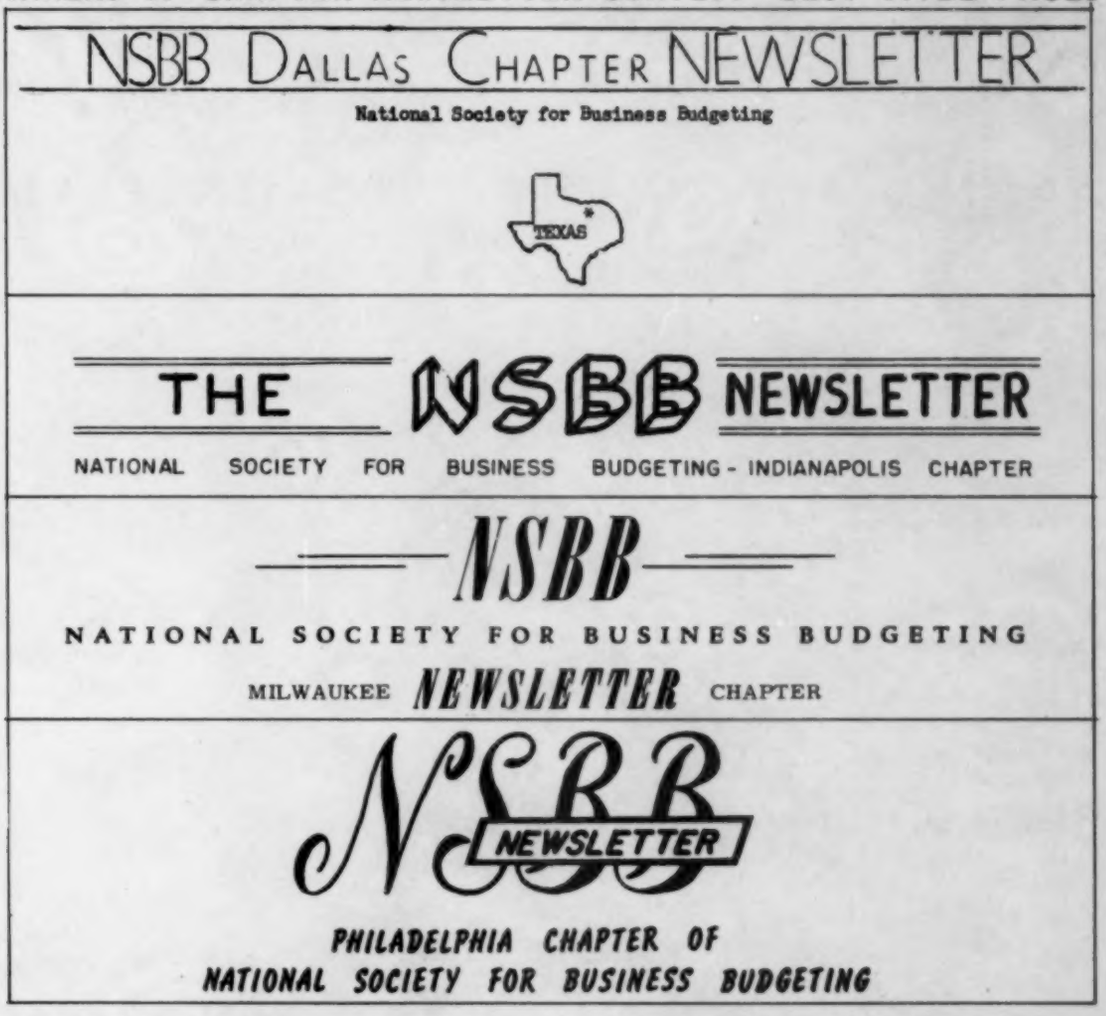
Job #1210

9/54	BB9455	R&RS and R&R Material		
		1 Hack Saw Blade Z00-002-01812	.37	
		30 lbs. Cold Rolled Steel Z40-000-00070	3.30	
		12 lbs. Cast Iron Z40-000-00060	1.32	
		10' 5/8 x 3/8 Chain Z20-000-01006	8.40	
		3 Conn. Links Z33-000-10060	.01	
		2 - 1-7/16" Bearings Z15-000-00230	14.64	
		35' 24" Cotton Belt Z26-010-02403	37.52	
		2 - 1-7/16" Ball Bearing Take-Ups Z15-004-00231	32.24	
		160 lb. Galv. Iron Z40-000-00010	16.00	
		48' Belt 4" 7 Ply Z26-012-04007	24.32	
		1 lb. Solder	.61	
		176 lb. Galv. Iron Z40-000-00010	18.80	
		56' 3/4" x 8" Yellow Pine	3.92	
		56' 3/4" x 12" Yellow Pine	5.60	
		20' 1½" x 12" Yellow Pine	2.60	
		4' 3/8" x 2' Veneer	1.20	
		16' 4" 7 Ply Belting (Returned to Stock)	*6.08*	164.77
9/54	68479	Jones Metal Company (Sheet Metal Mechanics)		
		4 Hours Labor		15.40
9/54	BB9537	B. & W. Labor		
		174-3/4 Hours		524.25
10/54	76459	Miller Elec. Co.		
		2 Hours Labor & Material		8.06
10/54	BB10214	Credit Repairs and Renewal Expense		
		200' #14 Wire	2.00	
		1 1062-C2 G.E. Switch Cat. #4386025	17.10	
		Bolts, screws, and nuts	1.77	20.87
10/54	BB10559	From G.F.E.		
		1/4 Gal. Enamel	1.33	
		1/4 Gal. Shellac	.78	2.11
10/54	75006	General Contracting Co.		
		10 Hours Carpenter Labor		37.50
10/54	BB10454	B. & W. Labor		
		15 Hours		45.00
11/54	84443	Miller Elec. Co.		
		6 Hours Labor & Material		22.47
12/54	BB12734	Above Completed Transferred to M. & F. From C/AM. & F.		840.43 *840.43*
				$840.43

EXHIBIT "A"

(Continued on Page 23)

WINNERS OF CHAPTER NEWSLETTER CONTEST -- BEST TITLE PAGES



Although all you Chapter Newsletter editors didn't know it, your Chapter Newsletter was automatically entered in a contest as to originality of heading, best content and clarity of reproduction. Above are the four leading title pages, as selected by the judges (the editors of this magazine). The best title page belongs to the Philadelphia Chapter, of which David M. Stadler is newsletter editor. The Indianapolis title page was judged second best, James L. Turpin editor. Milwaukee was third, and Dallas next.

The Cincinnati Chapter newsletter, Gene Middlecamp editor, rates high for content and appearance; high on this list are practically all the newsletters. Not all of them rate so high in clarity of reproduction, however, although there has been steady improvement. All in all, the line-up of newsletters is extremely good, and the Society can feel proud that the various editors have taken their responsibility seriously enough to see that their Chapter has a good, readable newsletter.

FIXED ASSETS (Cont'd from Page 22)

We find that the maintenance of our fixed asset records on I.B.M. gives us many advantages. The neatly printed run-downs reveal more readily any errors, such as duplication of tag numbers, charging off of items without installation costs or attachments, and also cause any entries with incomplete information to be thrown out almost automatically. Moreover, due to the ease of preparing lists and carbon copies, and due to their legibility, we find that the Engineering Department and Factory Management consult the listings more frequently. In addition, at least in our case, the I.B.M. actually replaced two manual systems, one maintained by the Accounting Department and one maintained in the Machine Shop by the Plant Engineer.

(NOTE: Portions of the preceding article have appeared in the N.A.C.A. "Bulletin", 1954, and are reproduced here by permission of that publication.)

"The Budget Director will see you now".

PLAN NOW TO ATTEND

1956 N.S.B.B. NATIONAL CONFERENCE

Cleveland, Ohio – May 24-25, 1956

CONFERENCE THEME – "OPERATION PROFIT"

General Chairman

HEAR

talks – discussions

by

budget authorities

* * *

SEE

Beautiful Cleveland

* * *

ENJOY

seeing – talking with

your fellow

N.S.B.B. members

MR. CARL O. WESSMAN
Division Controller, Harris-Seybold Company

Location:

Hotel

Cleveland,

Cleveland, Ohio.

* * *

BRING YOUR

WIFE

Special Entertainment

for the

Ladies

Daily

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Asst. Treasurer, Cleveland-Cliffs Iron Co.

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